



# **NAVAL POSTGRADUATE SCHOOL**

**MONTEREY, CALIFORNIA**

## **THESIS**

**DECENTRALIZATION AND DEVELOPMENT:  
THE INDIAN BALANCING ACT**

by

Robert K. Federal

June 2008

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**DECENTRALIZATION AND DEVELOPMENT:  
THE INDIAN BALANCING ACT**

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Submitted in partial fulfillment of the  
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## **ABSTRACT**

Over the course of India's six decades of statehood, the central government granted and removed authority to and from states resulting in a variety of development patterns among Indian states and across different periods of India's history. The cases presented here illustrate that when sub-national groups with well-entrenched and capable governing institutions successfully lobbied the center for more authority, several developmental outcomes – reducing insurgent violence, promoting economic growth, and reducing poverty – of the groups strengthened. When the central government failed to relinquish power and responsibility to such states, development slowed or stalled. Conversely, development did not significantly improve in states with weak governing institutions even when they requested and were granted more power from the center illustrating the importance of embedded and strong state institutions in state development.

This thesis examines the effect of decentralization on three aspects of development and describes the conditions under which decentralization and centralization promote or impede insurgency, economic growth, and poverty reduction. Based on empirical data from Indian states and detailed analysis of India's shifting political economy over time, it is shown that the decentralization of fiscal and political authority to capable sub-national governments enhances development programs. Conversely, centralizing authority in the presence of a capable sub-national government, or ceding authority to incapable sub-national governments impedes development.

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# **I. DECENTRALIZATION AND DEVELOPMENT**

## **A. DECENTRALIZATION BASICS**

### **1. Thesis**

Over the course of India's six decades of statehood, the central government granted and removed authority to and from states resulting in a variety of development patterns among Indian states and across different periods of India's history. The cases presented here will illustrate that when sub-national groups with well-embedded and capable governing institutions successfully lobbied the center for more authority, many developmental outcomes the group sought strengthened. In the cases where the central government did not relinquish power and responsibility to states with strong government institutions, development slowed or stalled. Conversely, development was not significantly improved in areas or states with weak governing institutions even when they requested and were granted more power from the center.

This thesis examines the effect of decentralization on three aspects of development – insurgency, economic growth, and poverty reduction – and describes the conditions under which decentralization and centralization promotes or impedes those characteristics. Based on empirical data from Indian states and detailed analysis of India's shifting political economy over time, it is shown that the decentralization of fiscal and political authority to capable sub-national governments promotes development. Conversely, centralizing authority in the presence of a capable sub-national government, or ceding authority to incapable sub-national governments impedes development.

### **2. Background**

Significant events such as the rapid development of Asian countries in the 1980s and 1990s and the fall of the Soviet Union instigated a wave of deliberation among scholars and policy makers throughout the world. Government leaders, politicians, and citizens alike have been increasingly engaging in conversations regarding the most

effective means of promoting good governance, economic growth, and the relationship between the two. Countries on all continents are making serious shifts in the authority central governments wield in comparison to their sub-national governments. The debate on decentralization aspects of Iraq's fledgling democracy illustrates the importance of this subject.<sup>1</sup> In relation to developing democracies, questions regarding how much fiscal and political decentralization, if any, are beneficial to development – particularly in the areas of violence reduction, economic growth, and poverty reduction – are critical parts of this discussion.

In this thesis, I examine the conditions and linkages between decentralization and development by analyzing the varying degrees of development in selected Indian states and in India as a whole over different periods. Since independence in 1947, the central government enacted different decentralization policies and mechanisms over time and for different regions. Subsequently, groups of Indian states exhibit a variety of development patterns over the past several decades in the areas of insurgency-related violence, economic growth, and poverty reduction. Understanding that decentralization is not a sole responsible factor for such deviations, this thesis investigates the conditions surrounding decentralization policies that produce positive and negative development trends. It also argues that the capability of sub-national governments is a key factor by comparing historical decentralization policies with regional and periodic patterns of insurgency, economic growth, and poverty.

## **B. LITERATURE REVIEW**

Although the amount of literature on decentralization has increased greatly over the past two decades, the debates have remained quite linear. Writings on political decentralization focus on the degree local participation plays in effective governance. Fiscal decentralization literature primarily examines local or national economic

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<sup>1</sup> Ivan Eland, "The Way Out of Iraq: Decentralizing the Iraqi Government," *International Journal on World Peace* 22, no. 1 (2005): 39-81; Robert M McNab and Edward Mason, "Reconstruction, the Long Tail and Decentralisation: An Application to Iraq and Afghanistan," *Small Wars & Insurgencies* 18, no. 3 (2007): 363.



outcomes.<sup>2</sup> Few existing studies connect decentralization and insurgent violence, arguably another viable indication of a society's development. This thesis aims to make a contribution to this research and advance our understanding of the relationship between decentralization and development.

## **1. Decentralization and Insurgency**

The ongoing operations in Afghanistan and Iraq have brought insurgency and counter-insurgency debates back to the fore. Although some of this literature addresses the efficiency and effectiveness of service delivery and economic growth as attenuators to insurgent activity, literature specifically exploring the relationship between decentralization (political and fiscal) and insurgency is rare. This thesis attempts to fill this gap by providing an introductory tour of the subject and then suggesting paths for future research.

McNab and Mason address the decentralization-insurgency relationship through an examination of the reconstruction efforts in Afghanistan and Iraq. They argue that the decentralization of reconstruction authority from upper echelon military commanders to company commanders in the field will more adequately meet the service requests of local societies, strengthen local governing institutions, and perhaps spur local economic growth and investment.<sup>3</sup> Their theory of reconstruction is akin to political decentralization in more common debates: the U.S. military in Afghanistan and Iraq is virtually synonymous with a central government, and company commanders act like regional and local authorities. Military units can initiate projects at the local level which deliver services that have been requested by citizens such as roads, wells, and sanitation services.<sup>4</sup>

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<sup>2</sup> For example, see Lucas I González, "Political Power, Fiscal Crises, and Decentralization in Latin America: Federal Countries in Comparative Perspective," *Publius* 38, no. 2 (2008): 211-247; Martin Painter, "From Command Economy to Hollow State? Decentralisation in Vietnam and China," *Australian Journal of Public Administration* 67, no. 1 (2008): 79-88; Baoyun Qiao, Jorge Martinez-Vazquez, and Yongsheng Xu, "The Tradeoff Between Growth and Equity in Decentralization Policy: China's Experience," *Journal of Development Economics* 86, no. 1 (2008): 112-128; and Joseph Lluís Carrion-i-Silvestre, Marta Espasa, and Toni Mora, "Fiscal Decentralization and Economic Growth in Spain," *Public Finance Review* 36, no. 2 (2008): 194-213.

<sup>3</sup> McNab, 363.

<sup>4</sup> *Ibid.*, 366.

McNab and Mason argue that because deployed military units are more able to discern the specific needs of individual neighborhoods than a central command authority, a high degree of decentralization in project targeting decisions more effectively assuages civil unrest that foments insurgency.<sup>5</sup>

However, using those similarities to build a theory governing political or fiscal decentralization and insurgency would be highly speculative. The insurgency in Iraq and Afghanistan occurred in the wake of a total dismantlement of the central government and in the presence of a foreign occupation force. These issues potentially usher in factors which cloud the theory of decentralization and development in a more stable national setting. There are differences between the insurgencies described above and grassroots insurgencies within countries that have capable, well-entrenched central governments. In this regard, traditional research on the causes of insurgency offers some direction in determining the effect decentralization has on insurgent movements.

Galula's studies on insurgency are still often cited despite having been written almost 50 years ago. This suggests that his theories on insurgencies are sound and can be applied to the insurgent activity within India. One argument he makes regarding insurgent leaders is that they must have made a claim or formulated an ideology which will be supported by the majority of the population amongst whom the insurgency will be fought.<sup>6</sup> Furthermore, those ideologies may either be secessionist or revolutionary. In either case, the activities of the insurgency are directed against the central government under whose control the perceived inequalities are not addressed. Both of these observations apply to the insurgencies in Punjab and Northeast India that are examined in this thesis.

Other authors tie together economic and political reasons for insurgency arguing that economic grievances far outweigh political reasons when seeking real reasons for

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<sup>5</sup> McNab, 375.

<sup>6</sup> David Galula, *Counterinsurgency Warfare: Theory and Practice* (Westport, CT: Praeger Security International, 1964), 8.

insurgencies, even though social or ethnic differences are the issues most highly touted.<sup>7</sup> Collier and Hoeffler empirically illustrate that reliance upon primary commodities in the presence of unequal, multi-ethnic societies is highly co-relational to states, which experienced civil wars from 1960 to 1999, more so than inequality, lack of political rights, or religious differences.<sup>8</sup> This is important for research here because it suggests that research into the decentralization-insurgency relationship should focus on fiscal decentralization. Perhaps more centralization of fiscal authority could ensure equal redistribution amidst a dependence on rents from primary commodities. Greater decentralization of fiscal authority could more efficiently support local infrastructure or produce horizontal imbalances amongst sub-national governments. It is a contention of this thesis that studies of the decentralization-insurgency relationship should not focus on fiscal decentralization alone but should include the aspect of political decentralization as well. The cases in this thesis demonstrate that political decentralization without fiscal decentralization does not always alleviate insurgent activities.

A study of USSR's spin-off republics supports this claim. According to research conducted on insurgencies in post-Soviet Union states, ethnic violence was avoided in the Republic of Buryatia through political decentralization within a framework of democratic institutions which guaranteed ethnic freedoms and equal access to all economic institutions in the republic.<sup>9</sup> Although former Soviet states dealing with ethnic-related insurgencies get far more attention, Buryatia deserves some attention for the *lack* of insurgency. Yet, they contend that it is the consociational democracy, the "privatization of ethnicity," and the inclusion of all ethnic groups in governmental seats of authority which has mitigated insurgent violence in that state.<sup>10</sup> This was accomplished through constitutionally guaranteed rights for ethnic minorities.<sup>11</sup> The Buryatia case emphasizes

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<sup>7</sup> Paul Collier and Anke Hoeffler, "Greed and Grievance in Civil War," *Oxford Economic Papers* 56, no. 4 (2004): 563.

<sup>8</sup> Collier and Hoeffler, 563.

<sup>9</sup> Olaf Leisse and Utta-Kristin Leisse, "A Siberian Challenge: Dealing with Multiethnicity in the Republic of Buryatia," *Nationalities Papers* 35, no. 4 (2007): 773-788.

<sup>10</sup> *Ibid.*, 784.

<sup>11</sup> *Ibid.*, 779.

the importance of political decentralization as an undermining factor in insurgency, even if economic issues are the primary cause of most insurgent uprisings. The conditions surrounding the insurgency cases in India discussed here will further contribute to our understanding of the decentralization-insurgency relationship.

## **2. Decentralization and Economic Growth**

Theories on optimizing economic growth abound. Literature on decentralization and economic growth understandably focuses primarily on *fiscal* decentralization; while political decentralization is either assumed to be linked to fiscal decentralization or is rarely addressed in economic development literature. General consensus is that fiscal decentralization promotes economic growth. However, this thesis raises questions regarding that generality.

As sub-national regions gain more political and fiscal authority, they can tailor laws, tax codes, and other economic incentives to maximize the production strengths of the region in accordance with the desires of the cultures contained therein as well as reinvest revenue into production infrastructure.<sup>12</sup> However, this assumption does not take into account the differences between political decentralization and fiscal decentralization, the subdivision of fiscal authority into revenue generation and expenditure authority, or the capability of the sub-national government to correctly shape complimentary fiscal and political policies. A deeper analysis of the decentralization-growth relationship yields results that are not at all linear, as the uneven growth rates of India's states illustrates.

Central government's fiscal authority itself has two sides: the ability to collect revenue and the ability to distribute it. Central governments may, for example, allow a state government to enact its own tax structure and establish its own permit and licensing fees but still mandate how those funds will be spent, regardless of local preferences. Conversely, a state may not have any revenue source but may spend the grant from the

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<sup>12</sup> Baoyun Qiao, Jorge Martinez-Vazquez, Yongsheng Xu, "The Tradeoff Between Growth and Equity in Decentralization Policy: China's Experience," *Journal of Development Economics* 86, no. 1 (April 1, 2008): 125.

central government any way it chooses. In either of the above examples, the center still retains dominant control. Even if the center grants sub-national governments total control over how a central grant is to be spent, the sub-national government is not entirely free to decide since they are dependent on the benevolence of the center for future grants.

The question remains of whether fiscal decentralization causes growth or growth allows fiscal decentralization. Also, what are the optimum degrees of fiscal decentralization along a country's development timeline? Oates describes a high degree of correlation between developed countries and decentralized fiscal systems.<sup>13</sup> However, he rightfully acknowledges that that claim is based on a static environment, and the degree of centralization can change in both directions over time. For example, the percentage of U.S. central government's spending went from 1/3 to 2/3 that of the state governments from 1900 to the 1950s – a centralizing trend – but has since receded.<sup>14</sup> Furthermore he states that sub-national governments must have the capacity to make responsible fiscal decisions for fiscal decentralization to promote economic growth, a significant observation for former colonies, many of which inherited a highly centralized fiscal system with underdeveloped local institutions.<sup>15</sup>

The relationship between revenue collection authority and expenditure authority is another very important aspect of fiscal decentralization.<sup>16</sup> As noted previously, ceding authority of one without the other may not at all achieve any of the positive effects desired by such initiatives, such as efficient and effective services delivery. George Guess notes that an imbalance of fiscal authority and responsibility may actually create enough social and political tension to cause societies to roll back decentralization efforts.<sup>17</sup> The cases studied in this thesis confirm this observation, as India has at times rescinded decentralization policies in the face of national pressures.

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<sup>13</sup> Wallace E Oates, "Fiscal Decentralization and Economic Development," *National Tax Journal* (1986-1998) 46, no. 2 (1993): 237-242.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> George M. Guess, "Adjusting Fiscal Decentralization Programs to Improve Service Results in Bulgaria and Romania," *Public Administration Review* 67, no. 4 (July 1, 2007): 733.

<sup>17</sup> Ibid., 731-744.

A study of Chinese fiscal decentralization shows that political decentralization and economic growth are linked. When some sub-national governments were granted authority to keep some of the revenue generated locally, growth-enhancing behavior was observed: inefficient practices were eliminated, capital was reinvested into infrastructure, and industries streamlined themselves in order to compete with regional neighbors. However, because of intra-regional trade barriers and other political obstacles, actual economic growth was muted.<sup>18</sup> This example suggests that fiscal and political decentralization policies implemented simultaneously might enable faster economic growth if properly coordinated.

The notion that decentralization equals faster economic growth is not the correct message of the above illustration: A recent empirical study of fiscal decentralization and economic growth in Spain suggests that the relationship is not linear but conditional.<sup>19</sup> Fiscal decentralization down to sub-national levels only succeeded in improving economic growth when sub-national regions already had capable fiscal institutional capacities; and economic growth was stunted in the presence of incapable sub-national fiscal institutions. Research also empirically relates strong economic growth with fiscal decentralization in the presence of strong national political parties.<sup>20</sup>

### **3. Decentralization and Poverty Reduction**

Poverty reduction efforts are a heavily researched subject, though connections between decentralization and poverty alleviation are weak.<sup>21</sup> Arguments which try to connect decentralization of any type with poverty need to be examined closely as decentralization initiatives often fail to reach down to the level of those living in poverty. Furthermore, it must be remembered that most empirical research on poverty reduction

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<sup>18</sup> Elliott Parker and Judith Thornton, "Fiscal Centralisation and Decentralisation in Russia and China," *Comparative Economic Studies* 49, no. 4 (2007): 514-542.

<sup>19</sup> Joseph Lluís Carrion-i-Silvestre, Marta Espasa, and Toni Mora, "Fiscal Decentralization and Economic Growth in Spain," *Public Finance Review* 36, no. 2 (2008): 194.

<sup>20</sup> Ruben Enikolopov and Ekaterina Zhuravskaya, "Decentralization and Political Institutions," *Journal of Public Economics* 91, no. 11 (2007): 2261-2290.

<sup>21</sup> Craig Johnson, Priya Deshingkar, and Daniel Start, "Grounding the State: Devolution and Development in India's Panchayats," *The Journal of Development Studies* 41, no. 6 (August 2005): 938.

has been done in areas with high levels of poverty as opposed to regions which have already reduced poverty to a very small amount. These studied regions often lack central and local capacities that more developed regions have; so decentralization in and of itself carries with it different implications. Just because a developed country with low levels of poverty has highly decentralized anti-poverty mechanisms does not mean less developed countries need to decentralize their poverty alleviation initiatives as much as possible.

That being said, several studies focus on poverty reduction through centralizing or decentralizing policies in a variety of environments.<sup>22</sup> Combined with an analysis of poverty reduction in India presented here, this literature offers significant insight into the role of decentralization in poverty reduction. For instance, researchers have found that political and fiscal decentralization efforts in parts of Africa actually inhibited poverty reduction.<sup>23</sup> Uganda and Malawi, in an effort to specifically reduce rural poverty levels, granted greater fiscal authority to local governments. As the size of grants from the center to the sub-national governments decreased, local governments began raising tax rates and instituting more permit and licensing requirements and fees which, in effect, created more barriers to those citizens trying to claw their way out of poverty. Similarly, in Zimbabwe, rural local governments were strained when the central government ceded revenue and expenditure authority to them. In addition to the small tax base, larger government institutions had to be created to perform some of the functions the central government had overseen, disproportionately expanding local expenditures.<sup>24</sup> These and the cases examined in this thesis support the conclusion that decentralization does not automatically lead to poverty reduction.

Never far from any debates over decentralization is the issue of corruption. Oates' observations about corruption and decentralization as applied to economic growth also holds true in poverty studies: although corruption is found more at the local levels, it has a diminishing effect on economic growth whether it is at the center or the local

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<sup>22</sup> Frank Ellis, Milton Kutengule, and Alfred Nyasulu, "Livelihoods and Rural Poverty Reduction in Malawi," *World Development* 31, no. 9 (2003): 1495-1510; Diana Conyers, "Decentralisation in Zimbabwe: A Local Perspective," *Public Administration & Development* 23, no. 1 (2003): 115-124.

<sup>23</sup> Ibid., 1495-1510.

<sup>24</sup> Conyers, 121.

levels.<sup>25</sup> Similar conclusions regarding poverty reduction can be reached in Africa. Lack of commitment by local authorities to poverty reduction is just as detrimental to pro-poor policies as when central authorities lack commitment as well. Crook concludes that pro-poor outcomes under decentralization policies are usually ineffective without strong anti-poverty sentiments in both the center and state levels *and* bolstered by centrally-managed agrarian reforms, since most poor are rural.<sup>26</sup>

Bird and Rodriguez would concur with Crook's findings, but would qualify the agrarian reforms as a need specific to the region in question. In their empirical study of South American, African, and Southeast Asian countries, they found that while there was some connection between social expenditures, social services provided, and poverty reduction, the features which made some countries more successful than others in actually reducing poverty were particular initiatives which targeted the specific needs of the poverty-stricken in the region.<sup>27</sup> They conclude that decentralization is the most efficient means of effectively targeting poverty alleviation initiatives, although their empirical data does not support the idea that decentralization benefits the state as a whole.

In summary, most of the poverty literature does not distinguish between political decentralization and fiscal decentralization, either assuming one comes with the other or addressing only fiscal decentralization, since poverty reduction is usually strongly associated with economic performance. The above discussion, and much of the literature on decentralization as outlined below, can be summarized by the following points:

- *Effectiveness versus efficiency.* Highly centralized governments may deliver services more efficiently to citizens due to economy of scale; but because the services are not tailored to specific local preferences, the services are not as effective. Decentralized governments can identify

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<sup>25</sup> Oates, 237-242.

<sup>26</sup> Richard C. Crook., "Decentralisation and Poverty Reduction in Africa: The Politics of Local-Central Relations," *Public Administration & Development* 23, no. 1 (2003): 77.

<sup>27</sup> Richard Bird and Edgard R. Rodriguez, "Decentralization and Poverty Alleviation: International Experience and the Case of the Philippines," *Public Administration & Development* 19, no. 3 (1999): 299.



specific needs of its citizens, but either lack the capital to satisfy those needs or they satisfy those needs inefficiently.

- *Equality versus growth.* Centralized governments can more effectively redistribute revenue; but redirecting revenue attained from more profitable entities to less profitable ones inhibits growth. Decentralized governments may result in a variety of sub-national growth rates, thereby resulting in intrastate competition and unequal growth, though aggregate growth is strengthened.
- *Stability versus instability.* Central governments wielding much political and fiscal authority have more resources with which to physically and socially control the movements and behavior of its citizens. Decentralized governments are subject to greater regional variances amongst its states.

Central governments must consider this research when designing decentralizing policies with an eye toward improving development. The variety of outcomes from India's policies will show that there are conditions under which decentralization improves or impedes aspects of development.

### **C. INDIA AS A CASE STUDY OF DECENTRALIZATION**

India is a good case study for decentralization and its effect on development. It has embarked on both fiscal and political decentralization efforts to differing degrees amongst its states over a period of time. Also, states have experienced different rates of development. An examination of the reasons for such a disparity under the same overarching central government will provide a better understanding of the relationship between development and decentralization.

After the turbulence of partition, pockets of secessionist movements developed in various Indian states, and some remain active. The northeastern states are notorious hotbeds of insurgent activity. Punjab was quite active in the 80s, and relatively new strains of Islamist movements have sprouted in the late 90s. The state government handled these secessionist and revolutionary insurgent movements with different political

and economic strategies. Military and paramilitary assistance from the center has also played an important role in the suppression of these insurgencies. One focus of this thesis is on the connection between political and fiscal decentralization policies and the development of insurgencies in selected states.

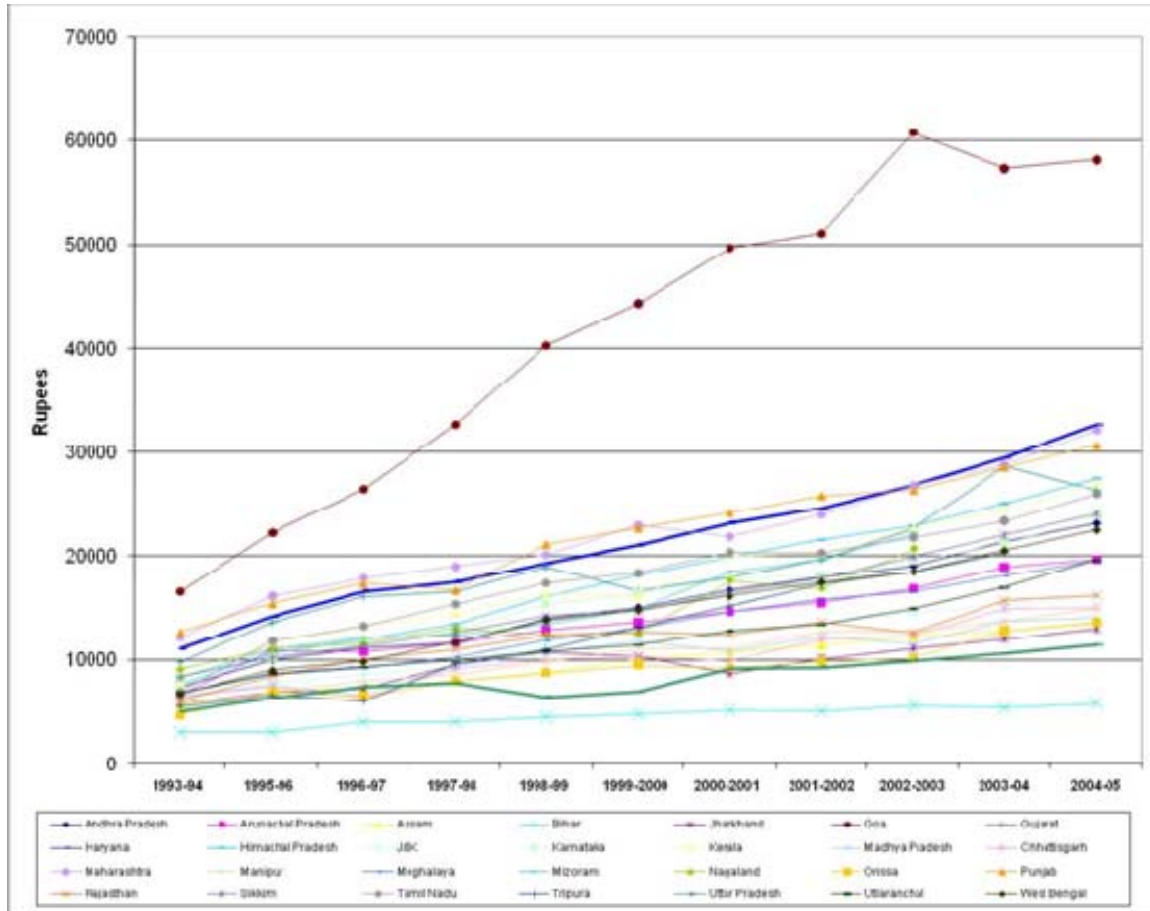


Figure 1. Net State Domestic Product Per Capita.<sup>28</sup>

<sup>28</sup> Government of India, *Economic Survey of India 2007-2008* (New Delhi: Government of India, Ministry of Finance, 2008), A-4.

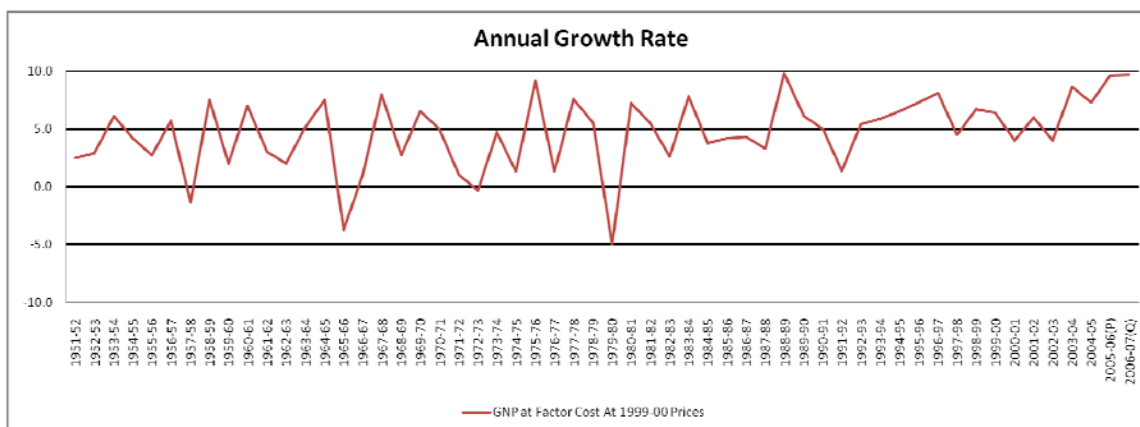


Figure 2. Annual Growth Rate of India, 1951-2007.<sup>29</sup>

The Indian cases illustrate that the central government overtly retained more fiscal and political authority over some state governments than others at various times. Potentially, one of the most obvious developmental outcomes of these policies is the uneven economic growth rate of the states (Figure 1) as well as the uneven aggregate growth over the decades (Figure 2).

The inward-looking socialist policies which emerged out of the democratic environment of a developing country mandated that the central government maintain tight control of the purse strings. During this time, the various political communities faced balancing popular demand for redistribution with a struggling economy. While the economic reforms of the 1980s and 1990s put the country on an upward trend, some states have not shown significant improvement in their growth rate, and some have even had periods of negative growth. Taking into account inherent natural wealth promoters such as abundance of natural resources, proximity to deep-water ports or trade centers, arable land, this thesis look at the role played by both fiscal and political decentralization in promoting or hindering growth in selected Indian states.

Poverty reduction has always been a high profile item on India's domestic agenda, sometimes considered to be a top priority by some of the nation's public politicians. While the overall UN-defined poverty rate of India has continued decrease

<sup>29</sup> Government of India, *Economic Survey of India 2007-2008* (New Delhi: Government of India, Ministry of Finance, 2008), A-4.

over the past quarter century, the 25% poverty rate is still appallingly high; and the disparity between states, in some cases such as Jammu & Kashmir and Goa at less than 5% and Orissa at almost 50%, suggests that there may be a correlation with uneven central government policies (Figure 3). Furthermore, poverty in the country has both fallen and risen over time, not necessarily connected to the priority given to anti-poverty policies, highlighting again the importance of state policy implementation.

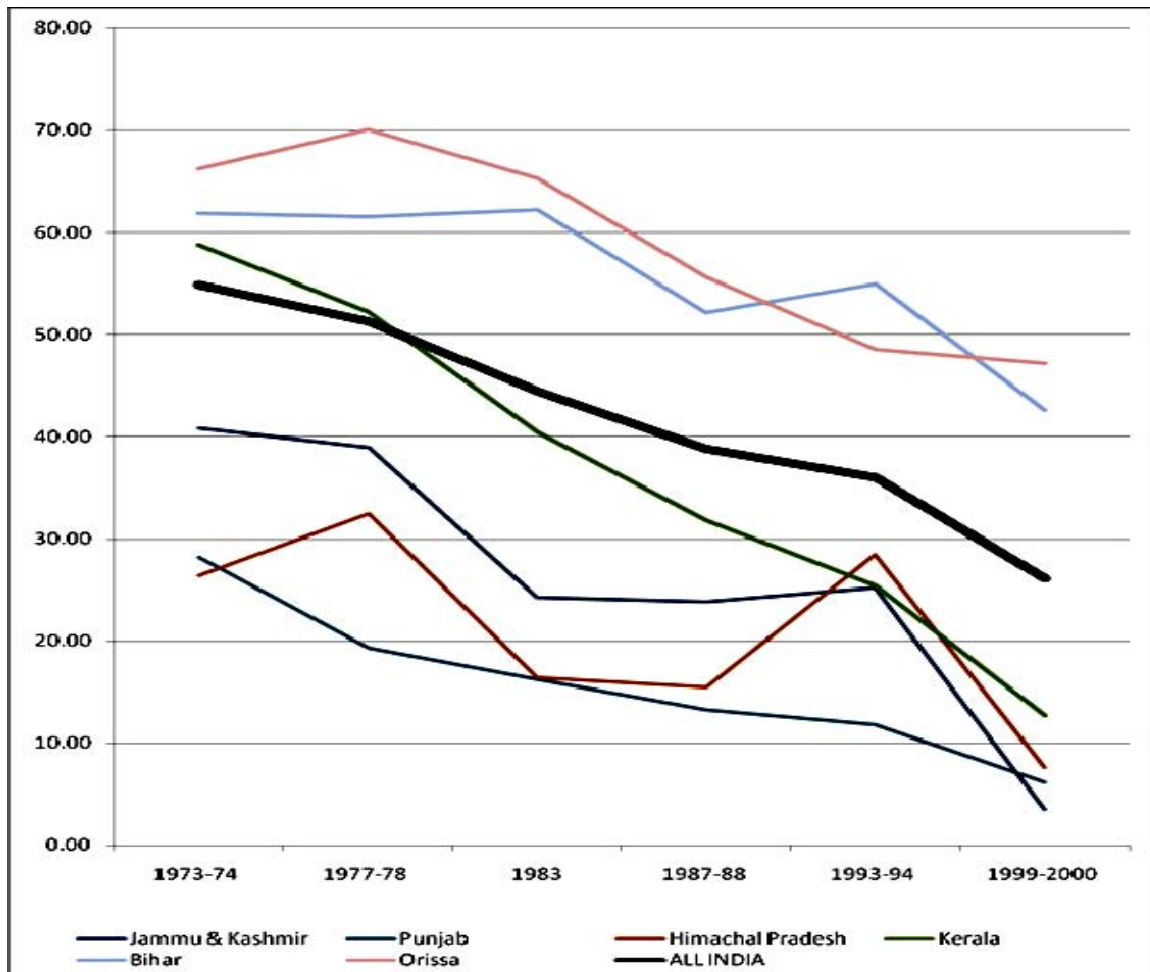


Figure 3. Poverty Rate of Select Indian States.<sup>30</sup>

<sup>30</sup> Government of India, *Economic Survey of Delhi 2005-2006*, (New Delhi: Government of India, Ministry of Finance, 2006), 379, Table 21.1.

In framing the constitution during the early years of independence, India was faced with two main issues: 1) a multitude of cultures expecting representation and services and 2) an uneven dispersal of natural resources.<sup>31</sup> The resulting document ceded some autonomy to the states so as to better address individual cultural groups but kept the majority of fiscal authority in the center, so as to evenly spread the revenues from the asperous array of natural endowments. Barring other inputs, this theory suggests that decentralization in India, particularly of fiscal authority, will spell disaster for sub-national governments not inherently wealthy due to location and the lack of valuable raw materials within its borders. Although inter-state growth inequities have increased (Figure 1) and poverty alleviation has been uneven (Figure 3), all states are progressing.

Of course, no central government operates in a sterilized environment, as the variety of outcomes from India's decentralization efforts illustrate. Several authors offer reasons for the disparity of effects. Some have argued that the increasing economic disparity between poor and rich Indian states is evidence of political favoritism and lingering symptoms of reliance on central support.<sup>32</sup> Others cite varied sub-national responses to new external global pressures.<sup>33</sup> This theory certainly carries some weight as India's economy is now more open to the global market than ever before. In addition to the several special economic zones established by the central government, it could be that some local government leaders have capitalized on lower trade restrictions and have simply done a better job of attracting foreign investors. Saez even notes that "economic liberalization has transformed federal relations in India from intergovernmental cooperation between the central government and the states towards interjurisdictional competition among the states."<sup>34</sup>

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<sup>31</sup> John Lewis argues that India's sheer size (giantism) creates problems that may be mitigated by decentralization. John P. Lewis, "Some Consequences of Giantism: The Case of India," *World Politics* 43 (1991): 367.

<sup>32</sup> Amaresh Bagchi, "Rethinking Federalism: Changing Power Relations Between the Center and the States," *Publius* 33, no. 4 (October 1, 2003): 36-37.

<sup>33</sup> Aseema Sinha, "Global Linkages and Domestic Politics: Trade Reform and Institution Building in India in Comparative Perspective," *Comparative Political Studies* 40 (2007): 1183.

<sup>34</sup> Lawrence Saez, "India's Economic Liberalization, Interjurisdictional Competition and Development," *Contemporary South Asia* 8 (1999): 323-345.

Another explanation for variation in development is that the decentralization is itself being unevenly applied. It could be that the horizontal fiscal imbalances among Indian states are so great that there is no incentive for the central government to truly cede more fiscal authority to the sub-national governments. There is some empirical evidence which supports this: states have different taxing authority granted to them by the center.<sup>35</sup> States whose budgetary needs are met mostly by central grants, with less funding coming from their own constituents, are more obligated to abide by central policies and less inclined to protest ill designed policies. A possible outcome is that anti-insurgency, pro-growth, or anti-poverty schemes are not implemented or are incapable of being supported within the highly dependent state.

A study of other developing countries yields another possible explanation for India's uneven development. It has been observed in several developing countries that decentralization, though publicly promoted by the central government, is not practiced in reality.<sup>36</sup> Some Indian states, possibly, are not adequately translating the national policy of decentralization into better services and participation, but are merely spreading existing bureaucratic institutions away from the center. Some of the cases in this thesis supports this claim. Alternatively, the decentralization may not have been complete – that is, political decentralization was not accompanied by fiscal decentralization. The central government, despite the national economic liberalization, has maintained control of about 75% of a states income, for example.<sup>37</sup> Whether the states or the center is responsible for hindering fiscal decentralization is less important than understanding the effects it has on local stability, economy, and security.

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<sup>35</sup> Saez, 328.

<sup>36</sup> Jorge Martinez-Vazquez and Robert M. McNab, "Fiscal Decentralization and Economic Growth," *World Development* 31, no. 9 (September 2003): 1597; Anna Taranchieva, "Fiscal Decentralization in the Kyrgyz Republic," *Problems of Economic Transition* 49, no. 12 (2007): 6-36.

<sup>37</sup> Saez, 328.

## **D. SCOPE AND METHODOLOGY**

### **1. Definition of “Decentralization”**

In this thesis, the main focus is on center-state relations, though the effects of decentralization on poverty do require examining the degree and scope authority reaches down to lower levels of government. Decentralization refers to the movement of fiscal and political authority from higher to lower levels of government unless the word “fiscal” or “political” immediately precedes it. Fiscal and political authority is not assumed to be connected and the mechanisms governing the decentralization of each can be isolated from the other. This is an important distinction because it is quite possible for the center to cede political authority to the states without ceding fiscal authority, and vice versa. Many would argue that decentralizing one without the other is no decentralization at all since it takes money to operate even a modest government. Arguably, if no fiscal authority is granted to a local government, it is less likely to meet the needs or deliver the desired services to its citizens, no matter how well local preferences are represented within the government. In fact, some central governments that announce legitimate political decentralization initiatives in an effort to appease citizen demands do so knowing that they still will retain fiscal authority over the respective state. Also, relocating seats of authority from the national capitol to subordinate districts is often misconstrued as decentralization when, in fact, no actual relinquishing of authority to the subordinate districts occurred. This highlights the importance of understanding the relationship between fiscal and political decentralization as well as the importance of examining both aspects of decentralization policies. This paper will show many of India’s fiscal and political decentralization policies have largely been decoupled from the other, either at the center or at the state and lower levels, thereby reducing developmental gains.

### **2. Definition of “Development”**

“Development,” of course, has many components. Literacy, birth rates, gender equality, economic growth rates, average life spans, corruption, and others have been used to measure the development of a region, a political entity, or a cultural group. For

the scope of this thesis, only three aspects of development will be explored: security, poverty, and economic growth. While many of the other components are linked to the three examined in this thesis – higher corruption rates negatively affect economic growth, for example – these three are highly visible in India. They also represent pillars of development: a secure environment allows the development of infrastructure, increased investment leads to economic growth, which is linked to poverty reduction in the presence of redistributive mechanisms, reducing the likelihood of insurgent activity. These components of development have been chosen also for their seemingly contradictory affinities for decentralization, as mentioned earlier.

For this thesis, security will be measured in terms of violence directed against central institutions for political and economic reasons. As discussed previously, arguments that link governmental decentralization and insurgency are rare, but some assumptions can be made about the connection based on related literature. While shifting political and fiscal authority to the periphery might assuage sub-national grievances, it might also give disaffected groups a more powerful voice with which to mobilize political support as well as the financial means to physically improve their ability to resist the central government. Empirical evidence can be provided to support both sides of the argument.<sup>38</sup> This suggests that there are conditions under which successful decentralization occurs and not simply a theory that decentralization either promotes or impedes insurgency.

Economic growth rate data for each state are also readily available. While growth rate variances between states were largely muted prior to 1991 (and difficult to quantify due to the division and creation of states), post-1991 liberalization policies yielded huge gains in per capita economic growth in some states and only small gains in others, regardless of income levels prior to liberalization. Furthermore, national growth rates varied over time as different national policies gained or lost traction. These differences in growth patterns, correlated with differences in decentralization policies will add to the theories highlighted in the above literature.

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<sup>38</sup> Kristin M. Bakke and Erik Wibbels, “Diversity, Disparity, and Civil Conflict in Federal States,” *World Politics* 59 (2006): 1-27, 29-32, 34, and 36-V.



Poverty rates for each state are readily available and indicate a state's ability to redistribute wealth, or, within the framework of a highly centralized institution, the failure of the central government's poverty reduction efforts to reach those who need it. The issue of poverty reduction has periodically been the top priority of various political parties in India.<sup>39</sup> While overall poverty has been reduced over the decades, the progress is not even across the country and, as such, offers fertile research material.

### **3. Methodology**

The following chapters will examine the relationship of political decentralization and fiscal decentralization with each of the three aspects of development outlined above. Various periods of India's political economy and a comparison among Indian states and regions will show different degrees of decentralization, different environments, and the resulting different degrees of development. As mentioned, the many other ever-present variables will be introduced when and if they significantly impact the decentralization-development analysis.

Chapter II specifically analyzes the effect of decentralization on insurgent movements. State-to-state comparisons of decentralization policies and insurgency-related violence most clearly enunciate under what conditions decentralization reduces insurgent behavior. The insurgencies in Punjab, the northeastern states, and the lack of insurgent violence in Tamil Nadu are specifically examined in relation to the amount of power the central government granted or withdrew from those individual states at various times.

Though the economic performance of states also varies, especially since 1991, the decentralization-growth relationship is best borne out through a periodic comparison of the nation's aggregate growth. Chapter III analyzes the decentralization policies over

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<sup>39</sup> Baldev Raj Nayar, "The Political Economy of India's Economic Performance Since 1947," in *The India Handbook: Prospects onto the 21<sup>st</sup> Century*, ed. C. Steven LaRue (Chicago: Fitzroy Dearborn Publishers, 1997), 45.

four distinct periods from 1947 to the present, that each had its own pattern of economic growth. Periods of stunted growth correlates to high degrees of central control and vice versa.

The relationship between decentralization and poverty reduction is a more difficult connection to make. Chapter IV highlights some successes of India's anti-poverty efforts through the prism of decentralization policies over time and across states. The evidence shows that poverty reduction was most successful under decentralizing policies; but the connection is thin as other aspects of poverty alleviation produced stronger relationships to the outcome of anti-poverty efforts.

It is understood that insurgent violence, economic growth, and poverty are not the only measures by which "development" is measured. Arguably, the best measures of "development" have yet to be determined. But, within the context of 2008, most academics agree, at least in part, that physical violence against other humans and the inability of one human to sustain himself in this day and age are two of the biggest problems facing the human race today. Since most solutions seem to involve high cost, the measurement of economic growth has been included in this study. The end result will yield a rough yardstick as to how much and when the central government of a developing country should cede power to achieve high marks in development.

## II. DECENTRALIZATION AND INSURGENCY

### A. DECENTRALIZATION AND SECURITY WITHIN INDIA

In general, it is believed that serving the population by providing adequate representation and improving their quality of life reduces the incentives for insurgency.<sup>40</sup> Applying those theories to India would lead one to conclude two things. First, India's impressive economic performance over the past fifteen years will have relieved much of the financial basis for insurgency. Second, decentralization efforts over the past fifty years should have undercut many of the grievance-based insurgencies in India as previously under-represented groups gain legitimate power within the government.

Unfortunately, such clear-cut outcomes are not evident. After the turbulence of partition, pockets of secessionist movements developed in various Indian states, and some remain active. The northeastern states are notorious hotbeds of insurgent activity. Punjab was quite active in the 80s, and relatively new strains of Islamist movements have sprouted in the late 90s. The state government handled these secessionist and revolutionary insurgent movements with different political and economic strategies. Military and paramilitary assistance from the center has also played an important role in the suppression of these insurgencies. This chapter explores the connection between political and fiscal decentralization policies and the development of insurgencies in selected states.

Understanding the current relationship between the country's decentralization efforts and insurgency requires a background on these two aspects in the Indian context. The establishment of India as an independent state was a robust challenge. The central government needed to legitimize itself domestically and internationally while also ensuring that the multitude of cultures – over 30 languages, 50,000 castes, and half a million villages – were adequately represented in the fledgling democracy. Eager to shed the British colonial rule, early Indian leaders also appreciated the potential British

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<sup>40</sup> Bard E. O'Neill, *Insurgency and Terrorism: From Revolution to Apocalypse* (Washington, D.C.: Potomac Books, Inc., 2005), 93.

institutions that ran the country under the colonial administration.<sup>41</sup> The political elite that inherited the country from the English felt that only way to bring together the multiple cultural Indian society was to strengthen and increase the size of the central government. Although at some level, there was recognition of the importance of local governments, especially in the form of *panchayats*, promoted by Mahatma Gandhi. However, under Nehru, in the event of an emergency caused by socially disruptive forces, ultimate authority was given to the Prime Minister – an option exercised on occasion – but, constitutionally, the legislative branch was granted the greater degree of day-to-day power.

While India's central government was able to keep its arms around the potentially disruptive social cleavages and the layers of bureaucracy grew. The resulting stability allowed local and regional political parties to become more organized. The demographics of the legislative branch changed from one dominated by a single party to one in which many smaller parties formed tenuous alliances based on the issues. Recognition that the various cultural groups needed a greater voice in governmental affairs led to the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments in 1992 which mandated the creation of locally elected governments at the village level.<sup>42</sup> This was accompanied by a culling of ineffective or inefficient bureaucratic institutions and a liberalization of economic policies. These last two alterations have been generally recognized as the principal reason for India's consistently strong growth over the past fifteen years. In terms of insurgency theory, then, there are fewer reasons for insurgency within India with greater opportunity for political participation and strong national economic performance.

Aside from isolated instances of events-led violence, organized insurgencies began to get real traction in the 1960s and 70s. Generally, the violence can be categorized into two types of insurgency: revolutionary and secessionist. Maoist organizations dedicated to the violent overthrow of the Indian government bloomed around the late 1960s, were largely suppressed during the 1970s, and have seen a steady

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<sup>41</sup> Stephen P. Cohen, *India: Emerging Power* (Washington, D.C.: Brookings Institute Press, 2001), 18.

<sup>42</sup> Lawrence Saez, "India's Economic Liberalization, Interjurisdictional Competition and Development," *Contemporary South Asia* 8 (1999): 323-345.

increase in influence since the turn of the century. Naxalism, which typifies this movement, is still considered a serious threat to the central government's legitimacy and has significant influence throughout much of the country.<sup>43</sup> India's newfound economic growth has not suppressed the birth of new revolutionary organizations, either, as groups like the Student's Islamic Movement of India (SIMI) have emerged from a loosely organized group to one that truly began to command national attention as late as 2000.<sup>44</sup> Northeastern India is home to some explicitly secessionist movements; and the Sikh insurgencies, also secessionist, have been active from the 1970s and still retain strong organizational capacities.<sup>45</sup> In summary, leftist, ethno-nationalist, and Islamist organizations have continued to survive amid India's economic liberalization and political decentralization. A closer look, however, will reveal that, like India's decentralization efforts, the increase or decrease of insurgent activity is not uniform throughout the country.

## **B. PUNJAB**

Even though Punjab has been one of the sub-continent's wealthiest states in per capita terms, it also saw some of the highest levels of instability and violence during the 1980s and 1990s. The civil war-like conditions were so horrible, with deaths from violence topping out around 5,000 people annually. Since then Punjab has earned the label of "model state" by some authors in that it was not only able to avert a total meltdown but return to a state of "normalcy" while high levels of insurgent violence persisted in other states.<sup>46</sup> While prospects for continued stability in Punjab are comforting, it is not necessarily a model of good governance but more an example of the difficulties India's central government faces in ceding authority to its state governments.

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<sup>43</sup> As a testament to the scale of the problem, in April 2006 Prime Minister Manmohan Singh stated that the Naxalites was the "single biggest internal security challenge ever faced by our country," according to the article "India politics: Naxalites pose internal security threat," *EIU ViewsWire*, New York, October 25, 2006.

<sup>44</sup> "Student's Islamic Movement of India (SIMI)," *South Asia Terrorism Portal*, <http://www.satp.org/satporgtp/countries/india/terroristoutfits/simi.htm> (accessed November 29, 2007).

<sup>45</sup> *South Asia Terrorism Portal*.

<sup>46</sup> Gurharpal Singh, "Punjab Since 1984," *Asian Survey* 36, no. 4 (April 1, 1996): 410.

Having inherited the largest concentration of Sikhs after Partition, who in turn had had vociferous segments of their society lobbying for their own nation-state prior to 1947, Indian Punjab became an instant insurgency threat in the eyes of the central government. Any calls for political decentralization by Akali Dal, the Sikh-dominant party, were interpreted as secessionist. Despite some brief times of hope wherein the central government promised greater degrees of self-governance to the state, notwithstanding the Rajiv-Longowal Accord of 1984, the national Congress party never followed through to a significant degree.<sup>47</sup> The gradual escalation of Sikh-led violence as a reaction to the failed promises was met with the escalation of Indian troops in Punjab as well as a centralization of political power, to include the complete dismissal of the Punjab government in May 1987. Increased security expenditures and numbers of security personnel (both state police and national troops) were accompanied by increasingly heavy-handed tactics, which in turn created more civilian casualties, accounting for 31% of all security-related deaths between 1984 and 1994.<sup>48</sup>

For better or for worse, the center's brutal tactics, including a thorough infiltration of militant Sikh social networks, eventually pacified Punjab and created a political legacy that carries opposing meanings depending on the interpreter: On one hand, the suppression of terrorism in the state legitimizes central authority despite the perpetuation of disenfranchised Sikh civilians who continue to be caught in the crossfire. On the other hand, the Punjab case discredits the notion that India is a group of states voluntarily unified by a prevalent sense of Indian nationality, when such centralized political and military means are required to maintain the peace.<sup>49</sup> In an opposing example of the center's decentralization efforts regarding Punjab, earlier Sikh demands for a Sikh-dominant state were finally granted in 1966 by the government of India, and insurgent violence was largely defused.<sup>50</sup>

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<sup>47</sup> Gurharpal Singh, "The Punjab Legislative Assembly Elections of February 1997: The BJP's Regional Road to Power?" *Contemporary South Asia* 6, no. 3 (1997): 273-283.

<sup>48</sup> Gurharpal Singh, "Punjab Since 1984," *Asian Survey* 36, no. 4 (April 1, 1996): 413-414.

<sup>49</sup> Jugdep S. Chima, "The Punjab Crisis," *Asian Survey* 34, no. 10 (October 1, 1994): 848.

<sup>50</sup> Atul Kohli, "Can Democracies Accommodate Ethnic Nationalism? The Rise and Decline of Self-Determination Movements in India," in *Community Conflicts and the State in India*, ed. Amrita Basu and Atul Kohli (New Delhi: Oxford University Press, 1998), 22.

Stingy decentralization of political authority is a lasting legacy of the center's early-1990s tactics which, due to the reduction of violence, exemplifies to many observers a model for good central governance.<sup>51</sup> Even in 2008, "local government cannot be said to be highly developed in Punjab" according to the state's official website; and though village panchayats exist, "they do not wield administrative or legal powers of any consequence."<sup>52</sup>

With a large agricultural sector, the state benefited greatly from the reforms of the Green Revolution; but the newfound economic inflows of the time, which will be discussed in more detail in the next chapter, created schisms within Sikh political institutions that may have prevented a front united enough to present a credible alternative to the controlling center.<sup>53</sup> The recent alliance between Akali Dal (Badal) and BJP, justified largely by a common interest in disassembling the dominance of the Congress party which had so harshly suppressed Sikh militancy, resulted in a rise to prominence of the Akali Dal (B) and BJP in the Punjab Legislative Assembly, winning 80% of the seats in 1997.<sup>54</sup>

While Punjab is considered a relatively peaceful state today, it has experienced an extended period of mass violence that seemed to skip other regions of the country which had similar ethnic-based movements. The central government relinquished some authority to the state, but it has come after considerable financial and social costs; and has perhaps even created barriers to future cooperative negotiations between state leaders and the center.

### **C. NORTHEAST INDIA**

The source of violence in northeastern India is more diverse, and in some cases more justified, than the politically-motivated movements in Punjab. To begin with,

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<sup>51</sup> Gurharpal Singh, "Punjab Since 1984," *Asian Survey* 36, no. 4 (April 1, 1996): 418.

<sup>52</sup> Government of Punjab, <http://punjabgovt.nic.in/government/government1.htm> (accessed January 28, 2008).

<sup>53</sup> Jugdep S. Chima, "The Punjab Crisis," *Asian Survey* 34, no. 10 (October 1, 1994): 849.

<sup>54</sup> Gurharpal Singh, "The Punjab Legislative Assembly Elections of February 1997: The BJP's Regional Road to Power?" *Contemporary South Asia* 6, no. 3 (1997): 278.

independent kingdoms comprised much of the Northeast and were swept up into India either through British regional expansion prior to Indian independence or in the few years immediately following. The influx of Hindu Bengalis at Partition and afterward created massive demographic shifts which in turn affected voting outcomes (for those areas that could vote). Indigenous tribal units, whose lands were being infringed upon by immigrants, gradually began resorting to violence to highlight their grievances to the state and central governments.

The state of Assam initially encompassed the states now known as Nagaland, Meghalaya, Mizoram, and Arunachal Pradesh. Tripura and Manipur were annexed by India in 1949 and were completely under the control of the central government. Therefore, the entire northeastern part of the country was represented by one fractious state or was directly administered by the central government for the first ten to fifteen years of India's self rule.

Religious, cultural, and language differences kept Northeast Indian societies fragmented. This fragmentation alone may not have been sufficient to instigate the waves of violence that followed, but the situation was not static. Partition led to several million Hindu Bengalis immigrating to West Bengal, Assam, and the surrounding kingdoms, continuing insidiously for decades. This created a competition for resources as indigenous tribes began to lose access to land traditionally used for their own subsistence.

Tribal groups within Assam reverted to violence when the state government failed to address their demands for government services; and after relatively brief periods of central government intervention, political autonomy as a state was granted. The Nagas of eastern Assam, following a campaign of violence against government institutions was granted statehood in 1963. The 1959 famine in what is now Mizoram touched off a movement which demanded greater autonomy due to lack of famine relief provided by the government. As the movement gained momentum and became more violent, the central government supported a strong military retaliation, using bomber aircraft against



its own citizens for the first time.<sup>55</sup> Protracted and interrupted negotiations, however, eventually led to the formation of Mizoram in 1987.

The two previously independent territories of Tripura and Manipur have undergone dissimilar trajectories of violence despite similar beginnings. Both are border-states (Tripura with Bangladesh and Manipur with Burma) which present significant counter-insurgency challenges as it gives separatists an area to which they can retreat if pursued. The main source of insurgent violence in Tripura originates from ethnic Tripurans who, having gone from making up 85% of the population to less than 30%, have lost land and political power to relatively recent Hindu Bengali immigrants.<sup>56</sup> Countering the violence of the Tripura Peoples Democratic Front (TPDF) and National Liberation Front of Tripura (NLFT), which seek to reestablish an independent Tripuran country, is adequately handled by state-run police forces.<sup>57</sup> Manipur, on the other hand, is one of the most violent areas in the region.<sup>58</sup> Though some of the violence is inter-tribal, its persistence and the blatant attacks on government institutions are indicative of the small amount of control authorities actually wield. Manipur is more like Punjab than Tripura in one main regard: the militants represent the ethnic majority in their respective state.

So the central government has pursued a variety of policies in addressing violent movements in the Northeast and Punjab. In the cases of some northeastern territories, the central government went so far as to grant full statehood to disgruntled ethnic groups. Where ethnic militants were outnumbered at the voting booths, residual violence has been contained, to varying degrees, by state-run police actions. In present-day Manipur, and Punjab in the 1980s and 90s, the central government has ceded little authority to the

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<sup>55</sup> “Memories of Inferno Still Remain Fresh,” *Aizol Times*, March 6, 2007, <http://www.aizolimes.com/article/2523/memories-of-inferno-still-remain-fresh> (accessed February 29, 2008).

<sup>56</sup> “Tripura,” *GlobalSecurity.org*, <http://www.globalsecurity.org/military/world/war/tripura.htm> (accessed February 29, 2008).

<sup>57</sup> “Tripura Assessment – Year 2008” *South Asia Terrorism Portal*, <http://www.satp.org/satporgtp/countries/india/states/tripura/index.html> (accessed February 29, 2008).

<sup>58</sup> “Manipur Assessment – Year 2008,” *South Asia Terrorism Portal*, <http://www.satp.org/satporgtp/countries/india/states/manipur/index.html> (accessed February 29, 2008).

state, possibly out of fear of an actual secession. Over time, the heavy-handed military tactics in Punjab were able to stamp out the major impetus of the more extreme violent factions; one wonders if the same effort will produce the same results in Manipur which is, by far, less developed than Punjab was.

At first glance it appears as if the over-centralization of authority instigated the movements responsible for most of the violence. Because the central government, which had assumed or taken over the authority for the regions examined above, were not able to effectively deliver the highly specific and individual services to multiple distinct ethnic groups, what started as political movements for change turned violent. But what effect did decentralization (or lack thereof) have on mitigating violence? Did the violence itself affect the centralization policies? Attacks on government infrastructure might burden a state government to such a degree as to necessitate the centralization of authority, as has been suggested in the case of Manipur.<sup>59</sup> Comparing these states to a state that had capable governing institutions sheds some light on this relationship.

#### **D. TAMIL NADU**

The tribes of northeastern India and the Sikhs of Punjab do not represent the only occurrence of ethnic perturbations within the country. Why have not all of India's ethnic movements resulted in mass violence? The political jockeying in Tamil Nadu was quite vigorous in the 1950s and 1960s, but violence was not as popular a political tool as in Punjab in the 1980s, Kashmir in the 1990s, and the northeastern states up to present times. What was the difference between Tamil Nadu (and most of the other southern states) and the states that did experience violence; and, specifically for this thesis, was there a difference in the relationship between the center and the state?

Democracy itself can be said to be a source of ethnic violence. Since representation encourages mobilization of a group or groups of voters, ethnicity, which is frequently easy to determine through physical appearance, religious practices, or language is used to motivate voters. Feelings of "us versus them" are more easily

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<sup>59</sup> "Asia: The mayhem in Manipur; India's Wild North-East," *The Economist*, March 3, 2007: 50.

perpetuated, even when such feelings did not previously exist, if the risk of not coalescing includes losing political authority or economic advantages. In a study of ethnic violence in India, Atul Kohli describes this progression of group identity, group mobilization, followed by power negotiation with the center as a regularly repeated phenomenon within India.<sup>60</sup>

The case of the Tamils, in the state originally known as Madras, supports this claim; and the case for secession may have been easier to make than in other parts of India. The Tamils speak a Dravidian language, notably different from the Indo-Germanic languages of northern India; and it is tangible evidence of the Tamils' distinct historical narrative from that of what is thought to be "Indian." Tamil political leaders capitalized on this and other differences in mobilizing support not only for state lines based on language, but for the creation of a Dravidistan. So some could certainly make the argument that ethnic Tamils had a stronger case for secession than Punjabi Sikhs, and would therefore be more prone to mass violence in achieving independence; but this did not happen.

Brahmins were frequently the foci of Tamil anti-center rhetoric. Since most high-level government offices were held by Brahmins, and Brahmins typically had fairer skin than ethnic Tamils, they were used by Tamil leaders to personify not only the central government's control of the area, but also the domination of the North over the South. It was all the more easier for Tamils to lobby so vigorously for such decentralization since Brahmins made up far less the population than in other parts of India: only 5% of Tamil society was made up of Brahmins as compared to 10% in most other parts of India.<sup>61</sup>

For the first ten years of India's independence, a variety of ethnic groups across the country lobbied for greater authority, requesting a redrawing of state lines to reflect the actual language and cultural differences between neighboring regions, the Tamils included. Nehru was rightfully concerned about relenting to such pressure as secessionist movements might gain sufficient momentum to actually trigger secessions across the

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<sup>60</sup> Kohli, 7-32.

<sup>61</sup> Ibid., 18.

subcontinent. In the 1950s, he did agree to new state lines to assuage growing ethnic grievances, but the constitutional fiscal restraints ensured much authority was retained in the center.<sup>62</sup>

Although Tamil Nadu was not immune from violence, the mass efforts against central authority were largely peaceful. Ethnic Tamil leaders directed the opposition against Congress domination through protests and the creation of substantial opposition parties. First through the Dravida Munnetra Kazhagam (DMK) party, then the Anna Dravida Munnetra Kazhagam (ADMK) party, ethnic Tamils were able to gain political advantage over the center-sponsored Congress party by the mid 1960s.<sup>63</sup> To this day, control of the state's Assembly is hotly contested by those two main parties, with the Congress party and several small local parties often deciding the outcome through alliances with one of the big two; but mass violence was never, and will most likely not ever be, a feature of Tamil Nadu's political environment.

#### **E. A SUMMATION OF THE DIFFERENCES**

There are many variables which can be attributed to the likelihood or not of insurgent violence across India; and even though this thesis is specifically examining the impact of decentralization on violence, those variables must at the very least be acknowledged to avoid assigning too much or too little credit to decentralization as a factor. Location, geography, demography, wealth, infrastructure, outside influences and historical narrative have all been successfully identified as significant contributors to violence in regions around the world; and the states studied in this chapter are not exempt.

The first commonality among Punjab and the northeastern states is that they are all located along international borders. While Tamil Nadu is on the "edge" of Indian sovereign territory, an ocean is more substantial a barrier against movement than a fence

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<sup>62</sup> Kohli, 19.

<sup>63</sup> Arun R. Swamy, "Parties, Political Identities and the Absence of Mass Political Violence in South India," in *Community Conflicts and the State in India*, ed. Amrita Basu and Atul Kohli (New Delhi: Oxford University Press, 1998), 116.

or, in some parts of India, simply a line on a map. The southeastern state is not immune from insurgent traffic across its shores, as Rajiv Gandhi's assassination by a Sri Lankan Tamil illustrates; but it can never be to the degree offered by direct abutment of a neighboring country – especially if the country is sympathetic to cross-border insurgents.

Such is the case for Punjab and Manipur in particular. Pakistan was not reluctant, particularly during the regional nuclear buildup of the 1980s and 1990s, to promote any sort of disturbance which put pressure on the Indian central government; so militant Sikhs had an arms supplier if and when needed. Similarly, ethnic Manipuris can still find refuge with sympathetic Burmese tribes marginalized by their own central government.<sup>64</sup>

In the cases of Punjab and the Northeast, centralizing policies do not seem to have been a trigger to violence. In both regions, violence became more pronounced and widespread many years after distinct centralization initiatives. In the case of some northeastern states, ethnic militancy gained traction a decade or more after the central government completely revoked all sub-national authority by annexing previously independent kingdoms.

Under certain conditions, there does appear to be a correlation between decentralization and violence, however, once mass violence has begun. Where there was a relatively sturdy structure of local governance (established political parties, a responsible judiciary and executive branch, and the capacity to fund the government), revoking sub-national authority promoted continued resistance (Punjab). Ceding authority under such conditions seems to have reduced the momentum of violent movements (Tripura, Punjab, some northeastern states). Though the center has ceded some power to Manipur in granting it statehood, it has not had the same effect on the level of violence as it did in other areas with greater political and economic capacity.

When the center imposed Hindi language requirements on Tamil Nadu – a blatant attempt to centralize authority – there was tremendous resistance from a majority of citizens; but violence was not a dominant characteristic of the resistance as it was under

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<sup>64</sup> Dinesh Kotwal, "Instability Parameters in Northeastern India," *Strategic Analysis: A Monthly Journal of the IDSA* 24, no. 1 (2000), [http://www.ciaonet.org/olj/sa/sa\\_apr00kod01.html](http://www.ciaonet.org/olj/sa/sa_apr00kod01.html) (accessed May 27, 2008).

similar policies in Punjab. One difference between the two states which might explain this observation is the legacy of political institutions within each. Ethnic Tamils had occupied the same territory for centuries, and had a developed infrastructure of governance. Decentralization of authority to the Bodos of Assam, where a stable civil society had also previously existed, helped extinguish the violence of that movement fairly quickly.<sup>65</sup> Though the concessions made were from the state to a local level, the central government was instrumental in the arrangement which exemplifies how decentralization can positively impact ethnic-based violence deeper than just the state level. In contrast, the demographics and many of the societal institutions of Punjab were rewritten during Partition, as was much of northern India.

In summation, the degree of decentralization amongst our case studies does not seem to be a critical instigating element of violence, which can (with few exceptions) be explained by traditional insurgency theory. Generally, peaceful ethnic movements existed with a backdrop of an historically substantial civil society or were mitigated by a peaceful majority. The impact of decentralization, then, seems to either be a defusing factor before violence has erupted or a dynamic factor of violence continuation: the rate and degree of decentralization (or centralization) during periods of unrest may perpetuate or escalate violence depending on the strength of sub-national civil institutions and the capacity of sub-national governments.

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<sup>65</sup> Jyotirindra Dasgupta, "Community, Authenticity and Autonomy," in *Community Conflicts and the State in India*, ed. Amrita Basu and Atul Kohli (New Delhi: Oxford University Press, 1998), 198-207.

### **III. DECENTRALIZATION AND ECONOMIC GROWTH**

#### **A. PATTERNS OF ECONOMIC GROWTH**

From Independence onward, India's political elite struggled to find a balance between popular demand for socialist policies in a poor democracy and economic growth within the ideologies of self-reliance and non-alignment. Liberalizing parts of the economy to eliminate inefficiencies risked losing support of voters, most of whom were poor. Coupled with the elite's sense of nationalism and the desire to keep all of India's cultural groups under one flag, it is easy to understand why centralist policies were so popular. However, external factors and internal financial duress created pressure for decentralization. To understand the effects decentralization has had on economic growth upon Indian states, it is important to look at the shift of political and fiscal authority over time, superimposed over economic performance. In addition to the difference in periodic aggregate growth rates and growth rates between states, there is also a difference in urban and rural growth rates. These differences, as well as the degree of central control over rural areas, are distinct throughout the country. This chapter is subdivided among four distinct periods of Indian economic growth. Within each section, an analysis of Indian political economy showing the degree of centralization and the forces acting on the central government is followed by a breakdown of economic performance during that period.

##### **1. 1947-1965: Highly Centralized, Socialized, Industrialized**

It is imprudent to analyze the political economy of India during this period without acknowledging the trends in centralization leading up to Independence. Looking back at the sub-continent, one can see a pattern of centralization and decentralization over the past one to two hundred years. In the 1800s, independent kingdoms attempted to maintain their sovereignty to the maximum extent possible in the face of British colonialism. Toward the end of the century, various movements intent on ousting the colonial powers utilized a greater degree of coordination across the empire in the pursuit

of independence. As such, regional and cultural differences were set aside for the time being, and authority began shifting to central institutions to coordinate a united front against the British.

In the 1930s and 1940s, an assortment of groups presented economic plans for the soon-to-be independent country. Nehru headed a National Planning Committee formed by the INC; leading businessmen espoused the widely held view of industrialization as a means to self-sufficiency; and the departing British rulers established a planning department which also promoted industrialization.<sup>66</sup> In opposition to those highly centralized plans, Gandhian elites proposed a decentralized plan reliant on small, localized industries and local policy-making to accommodate India's various cultures.<sup>67</sup> Several factors played into the ultimate decision to place greater economic authority in the hands of the central government. The Great Depression disenfranchised many policy-makers regarding capitalism, and the Soviet model of state-led development seemed the most compatible with Indian ideals.<sup>68</sup> Furthermore, the association of capitalism with colonialism was still strong enough to make a market-driven economy distasteful to many policy-makers.<sup>69</sup> The Gandhian plan was therefore dismissed outright and the structure for a centralized economic system took form under the leadership of the Indian National Congress (INC) party.

Political authority was also centralized around this time. Once independence was gained, the ruling elites, anticipating the fragmentation of pre-colonial cultures, constitutionally imposed barriers that would impede secessionist tendencies. The seventh schedule of India's massive constitution spells out the responsibilities of the central government and those of the states line by line. The responsibilities of the center include those normally associated with federal governments: the defense of the country (#1) and all of the activities supporting such an endeavor, foreign relations with other countries

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<sup>66</sup> George Rosen, "Planned Development and the Search for Self-Reliance," in *The India Handbook*, ed. C. Steven LaRue (Chicago: Fitzroy Dearborn Publishers, 1997), 62.

<sup>67</sup> Ibid.

<sup>68</sup> Ibid.

<sup>69</sup> Baldev Raj Nayar, "The Political Economy of India's Economic Performance Since 1947," in *The India Handbook*, ed. C. Steven LaRue (Chicago: Fitzroy Dearborn Publishers, 1997), 41.



(#10), national highways and infrastructure (#23), all currency (#36), and the like. Particular to India, the central government also has authority over other aspects of the society not always seen in federations: all railroads (#22), regulation of all industries and businesses, and the all-inclusive #97, “Any other matter not enumerated in List II [the State list] or List III [the shared responsibilities] including any tax not mentioned in either of those Lists.” The central government also reserved the right to assume control of individual states whenever it deemed necessary. Of particular importance is the fact that the state government, *not* the central government, has authority over all aspects of the agricultural sector (Figure 4). As will be shown later, this structure of fiscal authority has greatly influenced the behavior of state governments.

List I (Union Authority)	List II (State Authority)
Industries (#52)	Public health and sanitation (#6)
Opium (#59)	Disability relief (#9)
Film industry (#60)	Agriculture (#14)
Inter-state migration (#81)	Livestock (#15)
Taxes on <i>non-farm</i> income (#82)	Trade within the state (#26)
Taxes on tobacco, but not liquor (#84)	Taxes on agricultural income (#46)
Corporate tax (#85)	Taxes on agricultural land (#47-48)
Capital taxes, <i>not including agricultural land</i> (#86)	Taxes on land and buildings (#49)
Estate taxes, <i>not including agricultural land</i> (#87)	Taxes on liquor and opium (#51)
Taxes on inter-state sales (#92)	Taxes on entry of goods (#52)
	Taxes on electricity (#53)
	Taxes on professions (#60)

Figure 4. Central and State Areas of Authority.

“The Hindu rate of growth,” as one Indian economist described the quaint economic performance up to 1988, belies the variations in growth that did occur from 1947 onward.<sup>70</sup> The strong self-reliance themes evident through the country’s birth and

<sup>70</sup> Raj Krishna, “Ideology and Economic Policy,” *Indian Economic Review* 23, no.1 (1988) as cited in Baldev Raj Nayar, “The Political Economy of India’s Economic Performance Since 1947,” in *The India Handbook: Prospects onto the 21<sup>st</sup> Century*, ed. C. Steven Larue (Chicago: Fitzroy Dearborn Publishers, 1997), 37.

early years of independence created a pattern of economic isolation that set the country up for crisis in later years. While self-reliance had the effect of diversifying domestic sectors and keeping foreign debt low, it inhibited productivity and technological advances that were happening outside its borders.<sup>71</sup>

The first three Five Year Plans produced average annual growth rates of 3.7%, 4%, and 2.8%, respectively.<sup>72</sup> They each stressed the industrialization of the country given the strong consensus within India's ruling elite for self-sufficiency and the dominance of the industrialism theory as a means of development.<sup>73</sup> The plans themselves set annual growth targets during their respective periods of 3%, 5%, and 6% respectively. Per capita growth rates of the net domestic product for the same periods were only 2.6%, 2.0%, and 0.4%.<sup>74</sup> Despite the growing gap between actual performance and target performance numbers, the overall average gain of 3.5% validated the country's inward-looking plan in that its industrial sectors had expanded and, perhaps more importantly, that the government survived. The fact that industrialization was augmented by significant Soviet support and food shortages were covered by the United States, eager to offload its surplus, masked some fundamental problems with the country's economic structure.<sup>75</sup> Economic policies would continue to subjugate the agricultural sectors to industrial expansion; and the private sector, which significantly contributed to growth during these periods, was viewed as a rising threat to the socialist agenda. The Third Five Year Plan states, "It is a basic premise in India's Five Year Plans that, through democracy and widespread public participation, development along socialist lines will secure rapid economic growth."<sup>76</sup> The ruling elites' commitment to a centralized economic system remained intact despite signs of weakness.

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<sup>71</sup> Christopher Candland, "Mid-1970s to the Present," in *The India Handbook*, ed. C. Steven LaRue (Chicago: Fitzroy Dearborn Publishers, 1997), 20.

<sup>72</sup> *Economic Survey of India 2007-2008*, A-4; based on 1999-2000 prices.

<sup>73</sup> Nayar, 43.

<sup>74</sup> *Economic Survey of India 2007-2008*, A-4.

<sup>75</sup> Nayar, 45.

<sup>76</sup> Indian Planning Commission, "Third Five Year Plan," <http://planningcommission.nic.in> (accessed January 30, 2008).

## **2. 1966-1974: Reluctant Liberalization**

The political landscape of the country became more unstable during this period. After Nehru died in 1964, his successor, Shastri, lasted a little less than two years before Indira Gandhi, Nehru's daughter, was installed as an untested national leader. In addition to the uncertainty over India's future, internal and external forces on the country's governing regime caused shifts in policy that both decentralized and centralized authority. However, pressures for decentralization were overlooked or mitigated whenever possible in favor of more socialist policies.

First, the wars with China and Pakistan toward the end of the previous period (1962 and 1965, respectively) reinforced the importance of public industrialization over agriculture and private sectors.<sup>77</sup> The droughts of 1965 and 1966 brought to light the serious inadequacies of India's agricultural sector, and enabled Shastri, who favored more liberal reforms, to initiate pro-agriculture policies which ultimately blossomed into the Green Revolution.<sup>78</sup> Indira Gandhi was obliged to continue the reforms in as much as they were required simply to keep the country's economy afloat (and maintain popular support from the country's rural poor); but high inflation led to drastic cutbacks in public investment, debilitating the infrastructure required for sustained production levels.<sup>79</sup>

Significant changes in the country's political landscape which began earlier began to manifest themselves in political instability at both the state and national levels. Since segments of Indian society identified more strongly with their linguistic and cultural heritages, they created pressure for greater decentralization by granting authority to these sub-national groups. Ultimately, the center relented and state lines were redrawn in the 1950s to more accurately reflect the cultural and linguistic groups contained therein, but fiscal control remained firmly rooted in central institutions. The political parties that had formed along cultural lines in the pursuit of distinct states developed fissures as elites now mobilized around ideologies. Instead of continuing the pattern of decentralization

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<sup>77</sup> Nayar, 44.

<sup>78</sup> Ibid.

<sup>79</sup> Ibid., 45.

by seeking secession for the newly created Tamil Nadu, Tamil elites debated a range of political philosophies for government, for instance.<sup>80</sup> Hardliners at the center resisted these developments, and eventually Indira Gandhi began a campaign of centralization, liberally invoking President's Rule and Emergency Rule.

As the Congress Party began to split along conservative and liberal lines, Indira Gandhi embarked on a populist (and highly leftist) campaign of centralization. Licensing regimes were strengthened to combat a rising private sector; former private industries were nationalized; and restrictions on foreign investment were fortified.<sup>81</sup> Her re-election in 1971 from a platform of "poverty removal", and with support from the Communist Party of India (CPI), spurred the creation of deeper and stronger centralizing policies.<sup>82</sup>

With the exception of the Green Revolution, the economic outcome as a result of these policies was not good. Per capita net national product grew at an average 1.1% during this time period.<sup>83</sup> Investment in infrastructure deteriorated, stifling growth in all sectors; and a variety of shocks including drought, subsequent food riots, and international pressures culminated in the declaration of a national emergency by Indira Gandhi in 1975.<sup>84</sup>

### **3. 1975-1991: Earnest Liberalization**

Political stability did not improve in India during this period. Indira Gandhi's removal of power in 1977 followed her invocation of Emergency Rule two year earlier. Two years later she returned to power when the coalition government that replaced her failed to produce solutions to internal problems brought on by highly centralized fiscal policies. In 1984 she was assassinated and Rajiv Gandhi, her non-politician son, came to

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<sup>80</sup> Kohli, 19.

<sup>81</sup> Nayar, 45-46.

<sup>82</sup> Ibid., 45.

<sup>83</sup> Government of India, *Economic Survey of India 2007-2008* (New Delhi: Government of India, Ministry of Finance, 2008), A-4.

<sup>84</sup> Nayar, 46-47.

power for the next five years, after which he was defeated by a coalition of rival parties. He, too, was assassinated in 1991 while campaigning for the INC.

Before her death, Indira Gandhi was forced to carefully liberalize small parts of the country's economy in as much as her party, the INC, would accept a departure from their mandate, and to float what was seen as an essential military build-up countering increasingly aggressive Pakistani and Chinese border disputes.<sup>85</sup> Whereas Indira's reforms were in response to economic crises, Rajiv's gradually implemented liberalization policies were introduced, to the extent the INC and Parliament would allow, without similar pressures.<sup>86</sup>

Liberalization is not synonymous with decentralization, however. While Rajiv Gandhi's reforms benefited the private sector and the country as a whole, much fiscal control was retained by the central government. State governments, used to the steady income of state-sponsored industries, demanded supplemental grants from the center to keep their own state and local governments running.<sup>87</sup> The per capita growth rate during this period went from 1.2% in the first five-year period from 1975 to 1980, followed by 3.1% and 3.3% for the next respective periods as the reforms deepened and gained traction.<sup>88</sup> Rising oil prices in the mid-1970s certainly contributed to the higher growth rates as Gulf States increased their demand not only for Indian products, but Indian labor.<sup>89</sup> The still highly centralized fiscal system only served to accentuate – and Rajiv's reforms only served to delay – the building balance-of-payments crisis which was to emerge in 1990 and 1991.

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<sup>85</sup> Nayar, 49.

<sup>86</sup> Ibid.

<sup>87</sup> Ibid., 50.

<sup>88</sup> Government of India, *Economic Survey of India 2007-2008*, (New Delhi: Government of India, Ministry of Finance, 2008), A-4.

<sup>89</sup> Nayar, 49.

#### 4. 1991-Present: Robust Liberalization, Partial Decentralization

When the Rao government of 1991 introduced liberal policies to the parliament, the policies were hotly debated and heavily criticized by the majority opposition party; yet vote after vote enacted the leftist proposals from the minority party.<sup>90</sup> The success of this achievement is even more surprising when considering Rajiv Gandhi's failed attempt to do the same thing only six years earlier while his party had a three-fourths majority in parliament. Another irony is that the reforms were largely responsible for starting India on an upward economic trend despite majority opposition. This phenomenon can be explained on a few levels.

One might describe the liberalization effort championed by the then Finance Minister, Manmohan Singh, as sneaking in new laws when the citizens were concerned over swelling nationalist movements and associated violence. Politicians would point to the rising nationalist movement as a unifying force between Rao's minority Congress Party (INC) and the majority Bharatiya Janata Party (BJP). Economists would point to the balance-of-payments crisis that was hitting the country in 1991 – a liberalize-or-go-bankrupt situation for the government. On a more theoretical level, there is an argument that describes the liberalization as a case of elite politics versus mass politics.<sup>91</sup> The best answer is a combination of the above.

First, explaining why earlier attempts at reforms failed demystifies the dramatic difference in liberalization attempts from Rajiv to Rao. Rajiv Gandhi's (and the INC's) sweep to power in 1984-1985 can be characterized as a sympathy move by voters after his mother, Indira Gandhi, was assassinated.<sup>92</sup> The euphoria of the INC regaining the majority in parliament and a clean, unblemished non-politician (Rajiv) as the Prime Minister obscured from the masses the first reforms he initiated including the dismemberment of the economically cumbersome license raj and the reduction of several

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<sup>90</sup> Ashutosh Varshney, "Mass Politics or Elite Politics?: India's Economic Reforms in Comparative Perspective," in *India in the Era of Economic Reforms*, ed. Jeffrey D. Sachs, Ashutosh Varshney, and Nirupam Bajpai (New Delhi: Oxford University Press, 1999), 222-260.

<sup>91</sup> Ibid.

<sup>92</sup> Candland, 23.

trade barriers. Varshney argues that the minority BJP was paralyzed politically until Rajiv began reducing the farmer and petroleum subsidies – reforms that touched a majority of Indians on a daily basis – giving the BJP a new base of constituents from which to draw support.<sup>93</sup> The Bofors scandal, deviations from his mother’s agenda, relatively radical adjustments to foreign policies (courting the U.S., for example), and tacit approval for anti-Sikh crimes also contributed to the Prime Minister’s (and the INC’s) fall from grace, however.<sup>94</sup> Further reform efforts stalled in parliament.

Narasimha Rao came to power with a more daunting barrier to economic reform: a BJP-led parliament. There was a very peculiar environment surrounding the lawmakers, however, which allowed some quite radical reforms to be made into law. Economically, India was facing a severe crisis in that “the current level of foreign exchange reserves...would suffice to finance imports for a mere fortnight,” according to Singh during a 1991 plea to the Lok Sabha.<sup>95</sup> As severe as the crisis was, scholars refer to the crisis as only an instigator to reforms, not a sustainable engine for reforms.<sup>96</sup> Furthermore, the 1980s had seen a rise in Hindu nationalism, changing the bipolar status quo; and while leftist parties strongly opposed the INC, they feared the nationalists more. Politically, the spheres of influence were not bipolar as they had been for Rajiv but triangular between the BJP, INC, and Hindu nationalists. Smaller parties like Janata Dal desired to keep caste lines in place as their platform centered on lower versus higher castes. Because Hindu nationalists were trying to mobilize Hindus across all castes, thereby directly threatening Janata Dal influence, Janata Dal aligned itself with the INC for survival, and provided the critical swing votes during budget approval despite their caustic remarks.<sup>97</sup>

Where Rajiv only touched the surface of trade reforms, Rao used the surprising mix of coalitions within parliament to make massive reforms, reducing an 87% average

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<sup>93</sup> Varshney, 242.

<sup>94</sup> Nayar, 48-51.

<sup>95</sup> Manmohan Singh, as quoted in *India in the Era of Economic Reform*, 230.

<sup>96</sup> Stephen P. Cohen, *Emerging Power: India* (Washington, D.C.: The Brookings Institute, 2001), 98; Varshney, 245.

<sup>97</sup> Varshney, 247.

tariff rate in 1990 to around 20% in 1998.<sup>98</sup> He de-licensed industries across the country, leaving only a few under close government control. When it came to reforms that affected or were visible to more than just elites – politicians, large business owners, and investors – Rao was subtler than Rajiv. Reductions in income taxes were accompanied by slight reductions in food and petrol subsidies.

The successes and failures of both Rajiv and Rao highlight Varshney's argument of elite politics versus mass politics. Reforms that dealt with elite politics – currency valuation, trade liberalization, i.e. – progressed smoothly while those that affected the masses succeeded or failed depending on whether the immediate effect was positive or negative. Subtle, long-term, and indirect economic linkages are not capable of arousing mass action.<sup>99</sup> In summary, the liberalization policies proposed in the early 90s were successful because 1) the economic crisis opened the door for renewed debate; 2) the political environment caused unlikely coalitions that provided the requisite number of votes in parliament; and 3) the reforms were largely in the arena of elite politics. While fiscal control was being relinquished by the central government, however, it was not decentralization to lower government authorities. Rather, the market was given a larger role in determining prices and output. It does mark a shift in mindset among Indian elites that may encourage decentralizing policies in the future.

## **B. THE PARADOX OF PUNJAB AND THE AG-INDUSTRY DIVIDE**

It has already been shown that the central government, after granting statehood to Punjab in the 1960s, has been extremely reluctant to cede more power to the state. As far as insurgent violence, the centralization of power probably lengthened the duration of hostilities by reinforcing the political reasons Sikh insurgents were using to mobilize support. During roughly this same period, Punjab had the third highest growth rate of all Indian states.<sup>100</sup> Does this mean that centralization corresponds to higher economic

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<sup>98</sup> Varshney, 234.

<sup>99</sup> Ibid., 249.

<sup>100</sup> Paul Cashin and Ratna Sahay, "Internal Migration, Center-State Grants, and Economic Growth in the States of India," *Staff Papers – International Monetary Fund* 43, no. 1 (March 1996): Table 2.



growth? Actually, it does not. For Punjab, and coincidentally the two other states which posted higher growth rates than Punjab (Manipur [3.32%] and Haryana [3.0%]), the agriculture sector made up a little more than 50% of the state's net domestic product, compared to manufacturing which only comprised about 11%.<sup>101</sup> (Manipur's was 55% to 8% and Haryana's was about 57% to 12%, relatively.) Furthermore, the amount of grants Punjab received from the center as a percentage of its net domestic product was one of the lowest of all the states, and was the lowest for the period between 1981 and 1985 at less than 1%.<sup>102</sup>

The correlation between centralized authority and strong economic growth does not hold true in this case because, as illustrated earlier, agriculture is the only sector in which the state actually does have all the authority over the center: the ability to tax agricultural income, agricultural land, and on the inheritance of agricultural land. Conversely, the state with the lowest growth rate from 1961 to 1991, West Bengal, derived roughly 36% of its net domestic product from agriculture and 23% from manufacturing.<sup>103</sup>

### **C. DECENTRALIZATION-ECONOMIC GROWTH CONCLUSIONS**

The present state of India's economic growth and the fiscal institutions that have survived since independence reflect the country's roots as a centrally managed economy. As has been shown, a variety of internal and external forces have either forced or allowed ruling regimes to relinquish fiscal and political authority over time. The early years up to 1965 produced moderate economic growth which validated the highly centralized economic system. The mild decline in growth over the next period (1966-1974) was not attributed to improper planning, and a renewed emphasis on center-controlled industrialization in opposition to the private sector put a strain on the country's economic structure. The period 1975-1991 saw cracks begin to develop in the country's centrally planned development strategy which eventually became critical in 1991, when the

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<sup>101</sup> Cashin and Sahay.

<sup>102</sup> Ibid.

<sup>103</sup> Ibid.

economy was opened to the global market. Strong individual state performances correlate strongly to those with a dominant agricultural sector, the control of which resides with the states rather than center.

Although significant political decentralization policies were implemented over time, including the subdivision of states and constitutional reform encouraging political involvement from all citizens, the fiscal liberation of the past decades should not be confused with fiscal decentralization. Supply, demand, and pricing regulation has been relinquished by the central government to the market, but the constitutional processes and fiscal institutions that pertain to center-state financial relationships still exist. This lack of decentralization might help maintain states equality, but troubling symptoms in India's present-day economy suggest that aggregate growth and development are stifled by central planning.

The center-run Finance and Planning Commissions, and the dependency of the states on them, do not encourage responsible fiscal behavior at the state level. The Finance Commission, which recommends to the central government how large a grant should be allocated to each state do so based on the predicted gap between a state's revenue and expenditure.<sup>104</sup> The resulting motivation is for states to avoid running a surplus. The Planning Commission, which authorizes funding for both center- and state-originated projects, will help get projects off the ground by paying for the capital and operating expenses for the first five years.<sup>105</sup> Beginning new projects, regardless of long-term profitability or sustainability, unnecessarily ties up funding which might be more efficiently used if state governments were held fiscally accountable. The unintended bad economic behaviors, highlighted by these and many other examples of centrally managed policies, demonstrate the problems caused by inadequate targeting and oversight of the government holding the purse strings.

The combination of state dependencies on central funds with limited authority in other fiscal areas has created economic barriers within the country. States trying to

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<sup>104</sup> "India 1997 Economic Update: Sustaining Rapid Growth," World Bank, May 30, 1997, 24, <http://go.worldbank.org/92P7EYNVU0> (accessed January 15, 2008).

<sup>105</sup> Ibid.

capitalize on the limited revenue authority they do have (taxes on trade within the state and taxes on the entry of goods) has inhibited basic economic functions at the entrepreneurial level.<sup>106</sup> Unlike other regions in which workers' migration equalizes earning differences between sub-national states, cultural and linguistic barriers dissuade Indians from doing so.<sup>107</sup> As a result, the income levels of poorer states have not closed the gap with the national average as quickly as has been observed in other developing countries.<sup>108</sup>

In summary, there has not been significant fiscal decentralization within India, and the political decentralization that has occurred does not correlate with any trends in economic growth. Fiscal liberalization – allowing the market to regulate supply and demand – helped India generate the higher-than-average growth numbers of the past fifteen years. The central planning institutions, although trying to maximize state equity, is hindering aggregate growth and development by encouraging poor fiscal management at state and local levels.

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<sup>106</sup> “Can India Fly?” *The Economist* 379 (2006), 13.

<sup>107</sup> Cashin, 164.

<sup>108</sup> Ibid.

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## IV. DECENTRALIZATION AND POVERTY

### A. POVERTY IN INDIA

Just as insurgent activity and economic growth have varied across Indian states, poverty, and the degree of poverty alleviation has also varied. However, developing a connection between decentralization and poverty is quite a bit more troublesome than with insurgency or economic growth for a couple of reasons. First, the measurement of poverty itself is difficult, which in turn makes comparisons across time and regions difficult; and second, the anti-poverty policies must travel, in some cases, a very lengthy bureaucratic path before eventually ending up at the feet of those it is intended to help. Linkages between the degree of decentralization and the degree of poverty reduction may be more obscure than the correlations with insurgent violence and economic growth; but the fact that there is such a variety of outcomes within India suggests that there are conditions under which successful poverty reduction initiatives do take hold. Understanding that the decentralization-poverty link may be circuitous at best requires a more abstract approach at determining the effect decentralization has on poverty alleviation. This chapter will first define poverty and then identify the relative successes and failures in poverty reduction in India, defining them in terms of the relative degree of authority state and sub-national governments commanded. It will be shown that effectiveness of anti-poverty measures is ultimately determined by the local administrators and that strong central-state-local connections regarding a specific poverty alleviation scheme yield the most effective reductions of poverty.

The methods and means of measuring poverty are still evolving. A basic understanding of “poverty” is embodied by a relatively well known concept of “poverty line” – that amount of money which can purchase the bare minimum amount of food to sustain a human life. The World Bank currently uses the amount of \$1.08 per day as a benchmark of aggregate poverty across the planet.<sup>109</sup> There is a huge disparity, though, in

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<sup>109</sup> The World Bank, “Measuring Poverty at the Global Level,” *The World Bank: Poverty Net*, <http://go.worldbank.org/ROBDCTUXW0> (accessed March 6, 2008).

the methods of determining who and how many live below the poverty line (earnings versus consumption, national or sub-national statistics versus household surveys, and calories versus dollars, for instance). Most studies, therefore, are based on fiscal yardsticks since it takes money to buy or grow calories. Furthermore, most proposals for alleviating poverty are expressed in economic terms. Much of the discussion regarding poverty in India therefore occupies the realm of economics.

There are two types of anti-poverty policies: direct and indirect.<sup>110</sup> Direct anti-poverty policies put cash, assets, or food directly in the hands of the poor. Examples of direct policies include land caps, subsidies, and food rations. Indirect anti-poverty measures focus on creating income opportunities for the poor, such as investing in infrastructure, expanding public sector industries, and initiating educational programs. Although the direct method has quick, tangible results, the indirect (or growth oriented method) is sustainable and, therefore, must be at least a part of any country's anti-poverty policies.<sup>111</sup> This is important in India's case as it has employed both policy types, for better and for worse. It is beyond the scope of this thesis to determine the optimum combination of the two methods; the bigger question, however, is whether or not decentralization produces policies which are more effective in alleviating poverty.

Using India as a case study for research on poverty is understandable given the relative freedom of researchers in a democratic state and the sheer number of those living below the poverty line. Furthermore, comparing the uneven results in poverty reduction across the states is more easily accomplished than comparing uneven results across different countries. In general, the metrics of success or failure are more similar among sub-national entities than among national entities, and therefore has the greater potential of illuminating what works and what does not.

Long before the World Bank announced its Millennium Goals, Indian elites recognized the magnitude of India's poverty problem and have on occasion initiated

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<sup>110</sup> These methods are also referred to as "equity" and "growth" methods, respectively. Reeta Chowdri Tremblay, "Growth with Justice: Understanding Poverty," in *The India Handbook: Prospects onto the 21<sup>st</sup> Century*, ed. C. Steven LaRue (Chicago: Fitzroy Dearborn Publishers, 1997), 87.

<sup>111</sup> Jagdish Bhagwati, *India in Transition: Freeing the Economy* (New York: Oxford University Press, 1993), 26-27.

nation-wide poverty-reduction efforts.<sup>112</sup> Indira Gandhi's platform for her reelection in 1971 was based on eradicating poverty; and though it probably helped mobilizing rural and poor urban voters, statistics do not show any significant reductions in poverty rates during her time as Prime Minister.<sup>113</sup>

India, having almost one third of the world's population living in poverty, became a popular focus of poverty studies as global awareness to poverty issues grew over recent decades. Local and national politicians have joined the call for reform. Although social development prominently appears in economic reform verbiage, actual expenditures through the 1990s show paltry increases in social spending.<sup>114</sup> Also, the Indian military commands a much higher percentage of expenditures than other Asian countries; and the complicated tax structure places more burdens on the poor than the wealthy, further hindering poverty-reduction measures.<sup>115</sup> These criteria explain India's steady but lackluster performance in reducing nation-wide poverty. What they don't explain is why some states have not seen significant reduction in poverty rates and others have or what role decentralization has played in those outcomes.

The only way to measure the effectiveness of both direct and indirect anti-poverty measures is from the local level. Unlike aggregate insurgency and economic growth data for the country shows correlations with periods or regions of decentralization, the difficulty in obtaining poverty data means that data sets are usually general and show no meaningful correlation over time (Figure 5). The steady 6.5% growth rate between 1993-94 and 1999-2000 does overlay a period of increased poverty reduction; but periods of sharp growth declines (1979-80, for instance) also preempt an increase, though slight, in the rate of poverty reduction.

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<sup>112</sup> Nayar, 45.

<sup>113</sup> Government of India, *Economic Survey of India 2007-2008* (New Delhi: Government of India, Ministry of Finance, 2008), A-4.

<sup>114</sup> Government of India, *Economic Survey of India 2001-2002* (New Delhi: Government of India, Ministry of Finance, 2002), Table 2.4.

<sup>115</sup> Candland, 25.

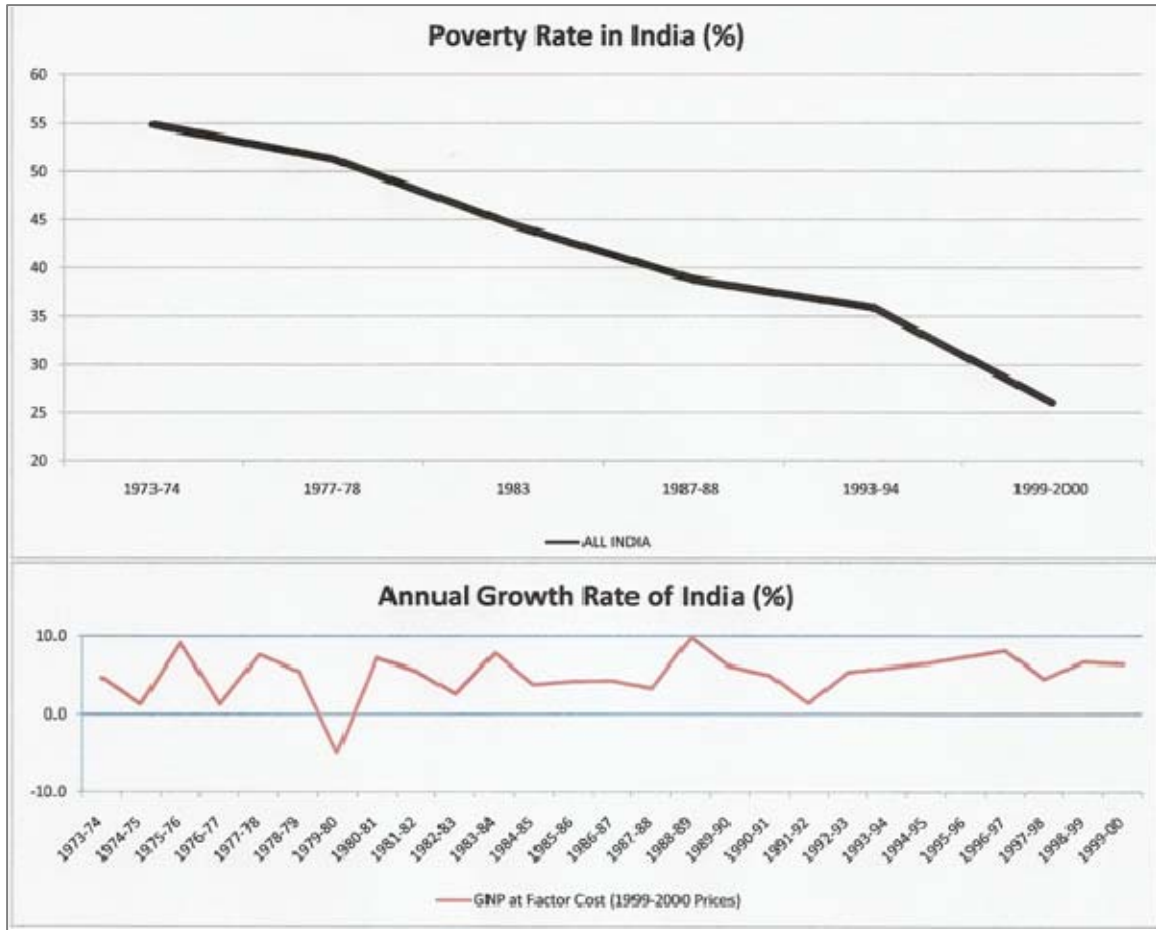


Figure 5. Poverty Rate Versus Growth Rate.<sup>116</sup>

Despite the pervasiveness of poverty on a national level, there have been significant differences between states with regards to poverty reduction. Of note, Bihar, Assam, and Orissa, which have traditionally had high levels of poverty, have only seen slight reductions in their respective poverty rates, lagging behind the rest of the country in poverty reduction results. On the contrary, Punjab, Kerala, and Goa have seen significant reductions in the percentage of their populations living in poverty from 1973 to 2000 (Figure 6).

<sup>116</sup> Government of India, *Economic Survey of India 2007-2008*, (New Delhi: Government of India, Ministry of Finance, 2008), A-4; and poverty data from *Economic Survey of Delhi 2005-2006*, 379.



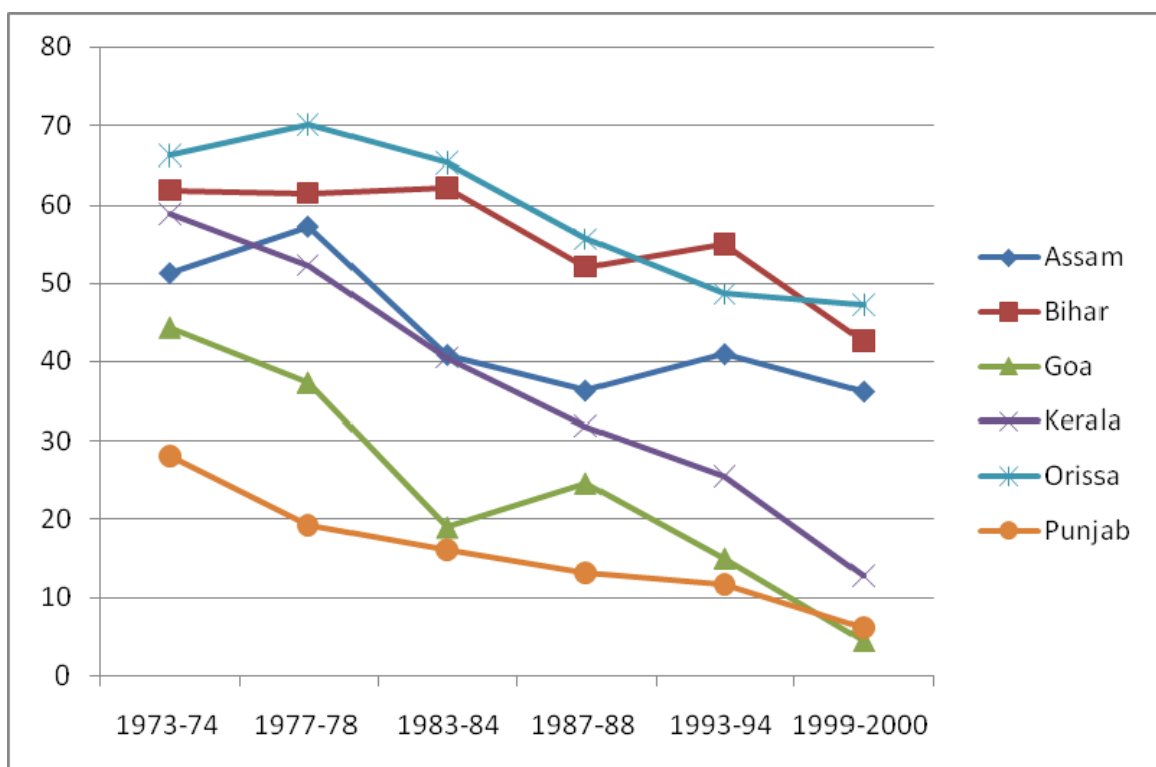


Figure 6. Highest and Lowest Poverty Rates (%).<sup>117</sup>

Because the most accurate poverty data is that collected at the local level, and the country is so expansive, most studies only cover a very limited part of the country. Those that do exist, however, provide a glimpse into the significance decentralization has had in reducing poverty.

## B. CASES OF NEGATIVE ANTI-POVERTY RESULTS

During the framing of the Constitution, the Indian elite wanted to ensure the poor, who resided mainly in rural areas, would have a voice with which to make their needs known to policy-makers. Theoretically, greater participation will enable more efficient targeting of indirect and direct pro-poor policies, and due diligence of local administrators is enforced through transparent democratic institutions. If the application of anti-poverty programs is unfair, periodic elections usher in new officials to do the job.

<sup>117</sup> *Economic Survey of Delhi 2005-2006*, 379.

The Indian central government, intent on guaranteeing political influence to poor, rural voters instituted local *panchayats* – village-based governments – in the Constitution.<sup>118</sup> The instruction for states to “to organize village panchayats and endow them with such powers and authority as may be necessary” proved to be too vague and open to varying interpretations, however, and the system never gained traction or died out in many parts of the country.<sup>119</sup> In 1992, the central government made another attempt at reinvigorating the panchayat system through ratifying the 73<sup>rd</sup> Amendment to the Constitution. In addition to guaranteeing seats to women and lower castes as well as specifying voting periodicity, the amendment granted the local governing bodies the authority and responsibility to identify the recipients of government-sponsored anti-poor measures.<sup>120</sup> This is the most significant attempt by the Government of India to improve poverty alleviation through decentralization. Success, however, varies across states.

Madhya Pradesh has been hailed as “a pioneer in the field of decentralization.”<sup>121</sup> The state government, showing strong support for the centrally sponsored panchayat system, pushed considerable power down to village councils. These councils, which have guaranteed seats for women and scheduled castes, have the authority to plan and propose local welfare plans, name beneficiaries of plans, and remove council chairpersons when desired.<sup>122</sup> Funding authority is somewhat less straightforward, however, and highlights an important aspect of decentralization. District Planning Committees (DPCs) which allocate central and state grants to the local levels have devolved to placating client networks of the sitting DPC members.<sup>123</sup> Therefore, fiscal power of local councils, although representing the wishes of its constituents, is subject to the political jockeying in the state assembly. This has clouded the true political beliefs of local panchayats as council members are beholden to state-level politicians for future

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<sup>118</sup> *Constitution of India*, Part IV, article 40.

<sup>119</sup> *Constitution of India*, 73<sup>rd</sup> Amendment.

<sup>120</sup> *Ibid.*

<sup>121</sup> Craig Johnson, Priya Deshingkar, and Daniel Start, “Grounding the State: Devolution and Development in India’s Panchayats,” *The Journal of Development Studies* 41, no. 6 (August 2005): 948.

<sup>122</sup> Johnson, 948-9.

<sup>123</sup> *Ibid.*, 949.

funding. As a result, poverty reduction efforts in the state have suffered: as of 2000, 37% of Madhya Pradesh's citizens live in poverty, significantly higher than the national average. Disruption of fiscal decentralization yielded incomplete decentralization and poverty alleviation suffered.

Another state which has shown little improvement in poverty reduction efforts is Bihar (Figure 6. ). Although progress has been made in recent years, the latest poverty rate of around 42% is still one of the highest in the country.<sup>124</sup> Assessments of the state's poor performance indicate that the results stem from poor decentralization and weak infrastructure, impeding the implementation of many center and state welfare schemes. A World Bank study shows that 89% of qualified beneficiaries did not receive the welfare granted from the center; and of the people who did receive assistance, 49% were overqualified for assistance.<sup>125</sup> Furthermore, the existing infrastructure simply is unable to absorb the large grants from the center. Between 1997 and 2000 it is estimated that Bihar was unable to spend about 20% of the centrally-provided funding.<sup>126</sup> The high degree of centralization of the state government impedes action in the creation, implementation, and targeting of pro-poor policies, which will most likely hinder poverty reduction and infrastructure development in the future.

### **C. CASES OF POSITIVE ANTI-POVERTY RESULTS**

Cases in which states demonstrate effective reductions in the poverty rate of its citizens do show some positive correlations to decentralized governments, although the degree of centralization does not seem to be a central factor in their success. In opposition to the cases offered above, lack of corruption, government support of pro-poor policies, adequate physical infrastructure, and adequate human resources are the dominant similarities of states with histories of strong anti-poverty results.

Andhra Pradesh offers a clear case of the above assertion. Although the panchayati raj technically exists in Andhra Pradesh, a state-sponsored parallel scheme for

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<sup>124</sup> *Economic Survey of Delhi 2005-2006*, 379.

<sup>125</sup> "Bihar: Towards a Development Strategy," World Bank, June 1, 2005, 3.

<sup>126</sup> *Ibid.*, 2.

local governance has left the village and district councils toothless.<sup>127</sup> Funds otherwise destined for local councils are granted to *janmabhoomi* – Andhra Pradesh’s system of committees for poverty alleviation – leaving panchayats as largely ceremonial institutions.<sup>128</sup> Janmabhoomi, through objective-oriented groups such as those focused on water management, forest management, welfare services, or road development for example, uses existing caste- and class-based structures to mobilize poor workers. Since the focus groups were made up of appointed rather than elected officials, the ruling party at the state and district levels end up wielding uncontested authority in the targeting and implementation of pro-poor policies.<sup>129</sup>

There are proponents of janmabhoomi who claim that, instead of bogging anti-poverty measures down with democratic institutions, Andhra Pradesh’s system uses existing caste-based rural institutions to get initiatives off the ground sooner.<sup>130</sup> The state, which had a poverty rate of nearly 50% in 1974, effectively reduced that number to around 15% in 2000, and the pace of poverty reduction in the past decade has surpassed the national average.<sup>131</sup> There is evidence, however, that the ruling party, the Telugu Desam Party (TDP), have controlled the targeting of welfare programs for electoral gain.<sup>132</sup> Villages who do not support the TDP at elections risk missing out on pro-poor programs. This loss of political participation masks the true desires of villages which means a loss of efficiency in the design and implementation of pro-poor policies. The success of poverty reduction in Andhra Pradesh is more a result of the state government’s dedication to poverty eradication (and economic growth – the 4<sup>th</sup> highest net domestic product in the country) than the suitability of particular schemes for particular villages or targeting of pro-poor policies.<sup>133</sup>

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<sup>127</sup> Johnson, 945-946.

<sup>128</sup> Ibid., 937-970.

<sup>129</sup> Ibid.

<sup>130</sup> Ibid., 946.

<sup>131</sup> *Economic Survey of Delhi 2005-2006*, 379.

<sup>132</sup> Johnson, 946.

<sup>133</sup> *Economic Survey of Delhi 2005-2006*, 379.

Sharing a similar poverty rate in 2000 with Andhra Pradesh is Kerala at 13%.<sup>134</sup> Yet a significant difference exists in the rate of poverty reduction of the two states since 1974.<sup>135</sup> The structural differences between the two states that explain this are Kerala's superior human resources and the combined decentralization of fiscal and political authority.

State/Union Territories	Poverty Rate (2000) (%)	Literacy (%)	Human Development Index Rank
Kerala	12.72	90.92	1
Punjab	6.16	69.95	2
Tamil Nadu	21.12	73.47	3
Maharashtra	25.02	77.27	4
Haryana	8.74	68.59	5
Gujarat	14.07	69.97	6
Karnataka	20.04	67.04	7
West Bengal	27.02	69.22	8
Rajasthan	15.28	61.03	9
Andhra Pradesh	15.77	61.11	10
Orissa	47.15	63.61	11
Madhya Pradesh	37.43	64.11	12
Uttar Pradesh	31.15	57.36	13
Assam	36.09	64.28	14
Bihar	42.6	47.53	15

Figure 7. Poverty Rate, Literacy, and HDI Rankings of Select States.<sup>136</sup>

Keralans have always stressed literacy, and the state government continued that trend since the formal creation of the state in 1957.<sup>137</sup> Currently, the left-leaning communist government spends 36% more on education and 46% more on health care

<sup>134</sup> *Economic Survey of Delhi 2005-2006*, 379.

<sup>135</sup> Ibid.

<sup>136</sup> Derived from 2001 Census information and *National Human Development Report 2001*, Planning Commission of India (March 2002), 25.

<sup>137</sup> K. P. Kannan, "Poverty Alleviation as Advancing Basic Human Capabilities: Kerala's Achievements Compared," Centre for Development Studies, Thiruvananthapuram, May 1999, 30, [http://www.cds.edu/download\\_files/wp294.pdf](http://www.cds.edu/download_files/wp294.pdf) (accessed May 20, 2008).

than the national average.<sup>138</sup> This brings up an important point about the significance of human resource capability in the presence of decentralization. The majority of states that have poverty rates lower than the country's national average also exceed the national average for literacy.<sup>139</sup> And in sync with the ultimate goal of this thesis, overall development strongly corresponds to poverty reduction and literacy rates (Figure 7).

The degree of decentralization in Kerala is significant, too. The state government went above and beyond the center's re-engagement of the panchayat system by ceding considerable fiscal and political authority to district, block, and village councils. Prior to ratification of the 73<sup>rd</sup> and 74<sup>th</sup> Amendments, Kerala was one of the states which failed to foster local governments as had been intended in the original constitution; and when authority was ceded to lower levels, it was usually captured by uncontested local elites.<sup>140</sup> The campaign to democratize the state did not simply grant political and spending authority to lower levels; it laid a foundation of responsible civic society by initiating training for over 100,000 citizens from all castes, all classes, and women.<sup>141</sup> The involvement of local societies was also not just left up to voluntary participation. Presently, highly structured and publicized local planning meetings are required to produce specific development and funding objectives to the State Planning Board. Citizens are encouraged to voice problems and prioritize development projects, after which the plans are developed and approved by qualified, un-biased citizen focus groups.<sup>142</sup> Although an empirical study of Kerala highlighted some leakages – inefficient use of state funds due to duplication of projects among villages, for example – they are very limited and aggregate state development indicators have continued to improve.<sup>143</sup> Additionally, participation in local government institutions is higher than ever, especially

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<sup>138</sup> Jason Deparle, "Jobs Abroad Support 'Model' State in India," *The New York Times*, September 7, 2007, Asia Pacific section, online edition (accessed May 20, 2008).

<sup>139</sup> *Economic Survey of Delhi 2005-2006* and 2001 Census.

<sup>140</sup> Patrick Heller, K. N. Harilal, and Shubham Chaudhuri, "Building Local Democracy: Evaluating the Impact of Decentralization in Kerala, India," *World Development* 35, no. 4 (April 1, 2007): 643.

<sup>141</sup> Heller, 629.

<sup>142</sup> Ibid.

<sup>143</sup> Ibid., 638-9.

among scheduled castes and women.<sup>144</sup> In combining the highly literate civil society with complete decentralization, Kerala created “a public platform for a vigilant civil society, conscious of its rights and committed to the correlative duties, to act as a watchdog in the common interest.”<sup>145</sup> Because it was complete decentralization – including both fiscal and political authority – local councils were not caught in clientelistic relationships with higher levels of government, and were therefore free to design and implement programs that were most beneficial to the constituents to whom they were accountable.

#### **D. CONCLUSION**

The evidence presented shows that decentralization only mildly correlates to successful poverty alleviation measures; although the cases show that it can enhance those measures under certain conditions. Strong support of governing authorities for pro-poor policies and the infrastructure to support service delivery of welfare schemes indicates with far more reliability the likely success of poverty alleviation programs. Corruption-free institutions, properly funded decentralized local governments, under the control of a capable, literate civil society may be the most effective combination of conditions under which anti-poverty measures succeed. If nothing else, decentralization does increase the efficiency of targeting pro-poor policies. All else being equal, local governments should be able to design policies better suited for their respective regions as well as better identify the recipients of welfare programs than a more removed central government; and studies of Indian villages confirm this.<sup>146</sup> Lastly, decentralization does not affect the likelihood of corruption in the cases outlined in this chapter. Perversions of pro-poor policies through diversion of welfare funding and contracts or through electoral fraud are evident in both high-poverty and low-poverty states. Strong institutions of higher government might mitigate such instances of corruption by providing a higher

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<sup>144</sup> Heller, 636-7.

<sup>145</sup> K. P. Kannan and V.N. Pillai, “Development as a Right to Freedom: An Interpretation of the ‘Kerala Model’,” *Working Paper 361*, Centre for Development Studies, Thiruvananthapuram, 2004, 39-40.

<sup>146</sup> Pranab Bardhan and Dilip Mookherjee, “Panchayati Raj and Poverty Alleviation in West Bengal: Summary of Research Findings,” (Working Paper, December 2005).

authority to which citizens can turn, forcing local governments and officials to be accountable up and down.<sup>147</sup> This assertion does not promote centralization as an anti-poverty measure; rather, it encourages the active oversight of legitimate, transparent central governments in policy implementation.

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<sup>147</sup> René Véron et al., “Decentralized Corruption or Corrupt Decentralization? Community Monitoring of Poverty-Alleviation Schemes in Eastern India,” *World Development* 34, no. 11 (2006): 1937.



## **V. CONCLUSIONS**

### **A. COMMON THEMES OF DECENTRALIZATION**

Understanding that there are many factors that impact human development, this thesis attempted to describe the effect decentralization has on three aspects of development: insurgent violence, economic growth, and poverty alleviation. It has been shown, through period-to-period and state-to-state comparisons, that decentralization is only somewhat related to development, as defined by those three developmental aspects. Decentralization alone did not seem to directly contribute to an increase or decrease in insurgent violence, economic growth, or poverty alleviation; but rather it appears as a development enhancer under the proper conditions. What follows is a review of India's decentralization patterns and how decentralization, or lack thereof, affected insurgent violence, economic growth, and poverty reduction.

The legacy of India's power shifts to and from the center originated in the anti-colonial period. Massive mobilization efforts required highly coordinated efforts from a centralized party. After Independence, this mentality drove the creation of the Constitution that kept the states beholden to the center. Unlike the federations of developed nations like the United States or Japan, where states voluntarily gave up autonomy for the advantages of being included under the protective umbrella of a centralized government, India was trying to keep its arms around many cultural groups which only shared a history of British colonization.

Cultural and linguistic differences, however, created such pressure on the center in the years following 1947 that the center allowed some degree of political decentralization and reorganized state boundaries to more accurately represent the different cultural groups located within. This promoted the creation of culture-based parties that worked to mobilize their own base of support for leadership positions within their own state borders. As these parties gained political strength, they put increasing pressure on the ruling Congress party at the center which, with a few exceptions,

carefully relinquished some political authority to the states. Fiscally, most authority was constitutionally tied to the center, and states are still dependent on central grants.

When Indira Gandhi came to power, she endeavored to recapture much of the authority ceded to the states in the preceding years and frequently overstepped constitutional boundaries when intervening in states' affairs.<sup>148</sup> The 42<sup>nd</sup> Amendment Act, which legitimized emergency rule of the states by the center, was enacted in 1976. Also, the number of times President's Rule was invoked (a law that allowed the center to assume direct control over states) and the duration it was imposed rose sharply in the 1970s and 1980s.<sup>149</sup>

If one were to apply the pendulum theory to India's decentralization policies, the 1990s and beyond make sense: there has been a trend to push more fiscal and political authority away from the center. What was highly decentralized in the late 1800s under British rule became highly centralized in the early 1900s as the subcontinent massed against its rulers. Independence now achieved, sub-national cultures reasserted their own dominance. Fearing a secessionist splintering of the country, ruling elites pulled back the authority to the center. Finally, out of economic necessity, some authority has been ceded back toward the states.

While there may be one or two more oscillations over the next several decades, it seems more like the forces that pushed and pulled on the pendulum are eroding and new forces are aligned with different objectives. Though some present-day calls for more state authority have undertones of secession, it is typically due to the legacy of state-based political parties that traditionally mobilized along linguistic and cultural identities. The fact that parties previously associated with one state now span regions of the country, and that economic groups from different regions are coalescing to voice their particular concerns is evidence that the forces for decentralization are changing. The composition of the Lok Sabha has changed from a house dominated by lawyers to one dominated by

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<sup>148</sup> Amal Ray and John Kincaid, "Politics, Economic Development, and Second-Generation Strain in India's Federal System," *Publius* 18, no. 2 (1988): 158.

<sup>149</sup> *Ibid.*, 151.

farmers.<sup>150</sup> Instead of decentralization for state's sake, these new groups call for decentralization for the sake of efficiency. And instead of centralizing power to maintain the sovereignty of the country, the center is faced with centralizing to ensure less developed regions do not get left behind.

## **B. DECENTRALIZATION AND INSURGENCY**

The theories on the cause of violence usually point to economic, political, or ethnic reasons. In the comparison of two otherwise identical towns, cities, states, or countries, where one experiences violence and one does not, an analyst might be able to determine the specific combination of variables responsible for the outbreak. Such a perfect experiment will never exist in the real world. Furthermore, there will always be, as there always have been, exceptions to these types of social theories. Conditions which satisfy the prerequisites for all of the violence theories – a poor, equally distributed multi-ethnic state with weak government and civil institutions, politicians mobilizing support along ethnic lines, and an abundance of loot-able primary commodities, for instance – may be overcome by a single, powerful leader.

The comparative case studies outlined in this thesis, tracing historical patterns of peace or violence, do not get the social scientist any closer to the *cause* of violence; but perhaps they move the discussion toward broader views of violence, particularly as it pertains to the development of states. The degree of decentralization amongst our case studies does not seem to be a critical instigating element of violence, which can (with few exceptions) be explained by traditional insurgency theory. Generally, peaceful ethnic movements existed with a backdrop of an historically substantial civil society or were mitigated by a peaceful majority. The impact of decentralization, then, seems to either be a defusing factor before violence has erupted or a dynamic factor of violence continuation: the rate and degree of decentralization (or centralization) during periods of unrest may perpetuate or escalate violence depending on the strength of sub-national civil institutions and the capacity of sub-national governments.

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<sup>150</sup> Ray and Kincaid, 159.

Atul Kohli argues that “democracy in a developing country setting both encourages ethnic conflict and, under specific circumstances, provides a framework for its accommodation.”<sup>151</sup> Based on the research of this paper, “specific circumstances” include capable state and local government institutions and adequate physical and human infrastructure. Centralizing authority in the presence of those criteria, as in the case of Punjab in the 1980s, exacerbated insurgent violence. Decentralizing without those criteria seems to have little effect on existing violence (India’s Northeast). Lastly, having the government capacity and infrastructure under decentralizing policies can mitigate violence, as has been shown in Punjab in the 1960s and Tamil Nadu.

### **C. DECENTRALIZATION AND ECONOMIC GROWTH**

Although some significant political decentralization measures have been enacted, there has been very little fiscal decentralization in India. Fiscal liberalization – allowing the market to regulate supply and demand – helped India generate the higher-than-average growth numbers which is receiving so much present-day attention. The central planning institutions, still constitutionally rooted in the country’s socialist beginnings, is hindering aggregate growth and development by encouraging poor fiscal management at state and local levels. Since Independence, India’s fiscal policies, which stressed socialized industrialization, have attempted to maintain that agenda, relenting to liberalization only when needed.

The combination of state dependencies on central funds with limited authority in other fiscal areas has created economic barriers within the country. States trying to capitalize on their limited revenue authority (taxes on trade within the state and taxes on the entry of goods) has inhibited basic economic functions at the entrepreneurial level.<sup>152</sup> Unlike other regions in which workers’ migration equalizes earning differences between sub-national states, cultural and linguistic barriers dissuade Indians from doing so.<sup>153</sup> As

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<sup>151</sup> Kohli, 32.

<sup>152</sup> “Can India Fly?” *The Economist* 379 (2006), 13.

<sup>153</sup> Cashin, 164.

a result, the income levels of poorer states have not closed the gap with the national average as quickly as has been observed in other developing countries.<sup>154</sup>

#### **D. DECENTRALIZATION AND POVERTY**

The evidence presented shows that decentralization only mildly correlates to successful poverty alleviation measures, although the cases presented here show that it can enhance those measures under certain conditions. Strong support of governing authorities for pro-poor policies and the infrastructure to support service delivery of welfare schemes indicates with far more reliability the likely success of poverty alleviation programs. Corruption-free institutions, properly funded decentralized local governments, under the control of a capable, literate civil society may be the most effective combination of conditions under which anti-poverty measures succeed. All else being equal, local governments should be able to design policies better suited for their respective regions as well as better identify the recipients of welfare programs than a more removed central government as the cases presented in this thesis illustrate. As is the case with the reduction of insurgent violence and promotion of economic growth, decentralization alone does not alleviate poverty.

#### **E. RECOMMENDATIONS AND PROSPECTS FOR INDIA**

A common theme among the presented development studies is that the presence of an adequate physical and human infrastructure, and a commitment to development from all levels of government, is necessary for decentralization policies to be effective. This has significant implications for many underdeveloped states in India. The announcement in March 2007 that the central government plans to increase spending on education and health care by 34% and 22%, respectively, shows that elites at the center are trying to raise the skill level of the civil society.<sup>155</sup> They must also show some

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<sup>154</sup> Cashin, 164.

<sup>155</sup> Jo Johnson and Joe Leahy, "Education Wins as India Pledges Big Rise in Social Spending," *Financial Times*, March 1, 2007, <http://search.ft.com/ftArticle?queryText=india+education&y=0&aje=true&x=0&id=070301000911&ct=0> (accessed March 28, 2007).

follow-through, however, to minimize the leakage of designated funds at the state and lower levels which plagues many of the country's states.<sup>156</sup>

As far as fiscal decentralization, the center has a more difficult challenge than just laying the groundwork for future decentralization. Six decades of working with a not-entirely-centralized planning system has institutionalized poor domestic fiscal behaviors that need to undergo a potentially painful correction. Weaning states off central funding, which will increase the accountability of state governments, is a tough political hurdle; but educating the public and encouraging participation can improve the quality and efficiency of service delivery throughout the country. In a 2004 World Bank report on India's economic reforms, several recommendations were made that highlight the importance of decentralization as a means of effective economic growth and are in line with the findings of this thesis. Among the many recommendations regarding expenditure restructuring and revenue reform for the central and state governments are the following:<sup>157</sup>

- Expand privatization of public sectors such as power generation and irrigation to mitigate efficiency losses and theft while improving revenue collections.
- Transfer service responsibilities to local governments.
- Promote consumer awareness and transparency to increase pressure from below for timely and appropriate services.
- Grant states the authority to tax services so that inter-state taxes on trade can be abolished.

In the three areas of development examined in this thesis, a common theme underlying positive signs of development in the presence of decentralization is a capable sub-national government with sound institutions. States that had a solid foundation of local governance witnessed minimum insurgent violence, positive economic growth, and

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<sup>156</sup> Poverty Reduction and Economic Management Sector Unit South Asia Region, "State Fiscal Reforms in India: Progress and Prospects" (World Bank, 2004), 81-83.

<sup>157</sup> Ibid.

significant degrees of poverty reduction. Also, when the central government pulled authority away from those states, development suffered as citizens mobilized against the center. If the ruling regime of a developing country wants to improve the development of its citizens, it can make some significant strides without decentralization simply by being committed to such aspirations. It may be costly, both in capital and political support, but it is certainly possible. As has been shown here, however, committed upper-level governments can greatly improve the rate and completeness of development by decentralizing fiscal and political authority to lower-level governments having adequate physical and human infrastructure to absorb such authorities and responsibilities.

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